ITALY'S INTERNATIONAL ECONOMIC POSITION

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THE INSTITUTE OF ECONOMICS
INVESTIGATIONS IN INTERNATIONAL ECONOMIC RECONSTRUCTION

ITALY'S INTERNATIONAL ECONOMIC POSITION

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ITALY'S INTERNATIONAL ECONOMIC POSITION

BY

CONSTANTINE E. McGUIRE

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DIRECTOR'S PREFACE

THIS volume is the seventh published by the Institute of Economics in the series of studies dealing with problems of international economic reconstruction. It is devoted to a general diagnosis of the economic condition of the Italian nation. Natural resources, population problems, banking and currency, public finance and foreign exchanges, agricultural and industrial production, international trade and financial relations are examined in their historical perspective, and not only separately but also in their inter-relations. Emphasis is placed upon the international economic position of the country for the reason that the economic welfare of Italy is in a peculiarly vital way dependent upon international commercial and financial relations with other countries.

In the large, the book is an analysis of the problems which confront a rapidly increasing population, inhabiting a restricted and poorly endowed national territory and trying to develop and maintain a smoothly functioning economic system and to procure thereby the means of existence. Stating its purpose in another way, the study sketches the economic history of Italy from the unification of the kingdom in 1861 to the present time. But the study is more than economic history because it also looks forward, (1) to answer the question whether

Italy can in the near future achieve financial and economic stability; (2) to reveal the basic economic factors which in a longer future will prove of controlling importance; and (3) to outline the national policies which Italy's fundamental economic requirements would seem to dictate.

The war debts of the Italian government to Great Britain and the United States are in a sense but one phase of a much larger problem. These obligations are, however, of exceptional importance because they have arisen as a result of the unproductive operations of war, rather than from constructive economic developments, and because, too, they constitute an additional burden to be borne by an economic mechanism already suffering from severe strain.

The data on which the conclusions of the volume rest have been drawn from published and unpublished official sources and from special investigations that have been made by Italian statisticians and economists. While no comprehensive study, devoted to the Italian situation in its inter-related aspects, has been published, there is an abundance of Italian literature dealing with practically all of the special problems concerned with the economic and social life of the nation. This has been of the greatest service, as the footnotes and the voluminous appendices will indicate.

A word should perhaps be said as to the degree of trustworthiness of Italian statistical data. Our exhaustive examination of European statistics has

left us with the conclusion that Italian data are as dependable as those of other countries, although in some cases more meagre and belated than is desirable. It is possible to check to some extent the reliability of published data by methods known to economic and statistical analysis, and we have found no reason to doubt the accuracy of the Italian government's figures.

As it is no part of the purpose of the Institute of Economics to undertake the appraisal of comprehensive national programs in all their aspects, the reader in search of a systematic general analysis of Fascist political, social, and economic theory or its manifestations in legislative and administrative actions will have to look elsewhere. But it could not fail to be the case that so many-sided and enterprising a régime as the one which is now entering on its fifth year in Italy should be frequently referred to in these pages—when, for example, account is taken of fiscal, agricultural, and other great groups of problems affecting Italy's international economic position. It may be true that Italy's economic position in the future will prove to have been decisively affected by the whole political, social, and economic theory underlying the Fascist program. But such considerations necessarily lie outside the purview of what is essentially an economic inquiry.

HAROLD G. MOULTON,
Director.

Institute of Economics,
October, 1926.

AUTHOR'S ACKNOWLEDGMENTS

READERS familiar with the clearness of thought and the directness of style of the Director of the Institute of Economics will not find it difficult to realize the extent to which he has guided the organization of this entire volume, and molded the form in which its material is presented. Edwin G. Nourse and Thomas W. Page, his colleagues in the Council, and Charles O. Hardy and Leo Pasvolsky of the staff, have likewise contributed substantially to the shaping of the study. Other members of the Institute's personnel have rendered critical, editorial, and statistical help which the author appreciatively acknowledges.

Grateful acknowledgment is made of valuable assistance from Dr. G. B. Ceccato, Commercial Attaché of the Italian Embassy at London, formerly at Washington, and from his successor in the latter post, Dr. Romolo Angelone. Indispensable clarifications were received from the Honorable Vito De Bellis, Accountant General of the Italian Government, and documentary material through the kindness of Professor Felice Guarneri, Director of the Association of Italian Corporations. The visits of Senator Luigi Einaudi and Professor Corrado Gini to Washington afforded the author greatly

prized opportunities for the discussion of, or for the initiation of correspondence relating to obscure matters; and Professor Gini's co-operation has gone beyond his kind permission to reproduce his stimulating study on the economic status of Italy, which appears at the end of the book.

CONSTANTINE E. MCGUIRE

Washington, D. C.,
October, 1926.

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ITALY'S INTERNATIONAL ECONOMIC POSITION

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CHAPTER I

ITALY'S BASIC RESOURCES

THE purpose of this study is to determine what factors affect the wealth-producing and the foreign-debt-paying capacity of the Italian people. Accordingly, before we enter upon a discussion of Italy's international income, her fiscal situation, the state of agriculture and industry, and the condition of banking and currency, it is desirable to describe the general economic resources of the nation. In this preliminary chapter, therefore, we present the salient facts as to Italy's natural resources, her population and government, and her colonial possessions.[1]

[1] The material in this chapter is drawn from standard official and unofficial sources; all data not otherwise credited have been taken from the *Annuario Statistico Italiano,* Rome, the latest issue being that for 1921 which has a supplement with preliminary figures for 1922-1924; *Italia Economica* of Professor Bachi (Turin, latest issue used being that for 1921, published 1922); *Prospettive Economiche,* of Professor Mortara (sixth annual issue, Città di Castello, 1926); the *Bollettino di Notizie Economiche,* monthly (now in its twelfth year), published by the Association of Italian

I. GEOGRAPHY, PHYSICAL AND ECONOMIC

The area of the kingdom of Italy, including not only the island possessions, but also the provinces acquired by virtue of the Treaties of 1919, 1920, and 1924,[2] enclosed by a coastline of about 2,400 miles, amounts to 119,688 square miles (30,998,400 hectares). A substantial portion of this area is distinctly mountainous, while another large aggregate area [3] is at present incapable of exploitation to any significant degree, and will remain so until vast sums have been spent in one or another form of reclamation.

From the vertebral column of the peninsula flow into the waters of the Adriatic and Mediterranean a number of rivers, mostly small, rapid streams, which for centuries have turned the mills of Italy, and many of which to-day are being harnessed, slowly but systematically, by networks of hydro-electrical installations. Among the rivers on the mainland only the Po is important as an inland waterway; and yet the great river has never "been easy either

Corporations and the General Confederation of Italian Industries, at Rome. The last-named organization also inaugurated with 1925 a *Piccolo Annuario Statistico* (with an English version under the name *Statistical Abstract of Italy, 1925*).

[2] The Treaty of Rome, January 27, 1924, between Italy and the Serb-Croat-Slovene State. The area of the Italian colonies is not included in this figure (about 627,000 square miles).

[3] Perhaps 30 or 31 per cent, of which as much as 2 per cent may become productive after moderate outlays on improvement. About 4 per cent of the total area of Italy consists of marshes and lagoons, principally along the Northern Adriatic coast. Roughly 18 per cent of the total area is covered by forests (including chestnut groves).

to navigate or to cross." [4] The rivers of Sicily and Sardinia are important chiefly as future sources of power.

Italy was one of the first countries to realize the relation between forestation and climate, but, like the others, she did not begin until recent years to put into effect on any important scale a sound policy of forest conservation.[5] Her mountains are bare and

[4] Fleure, H. J., "Cities of the Po Basin," *Geographical Review*, July, 1924, XIV, 345 ff. Professor Fleure remarks of the Po and its tributary territory: "It has been a divider rather than a unifier. The region of the Po Basin has not at any time, for long, been a human unit nor the basis of any durable organization. To realize this and the great mountain walls, line behind line, between the basin and peninsular Italy is to appreciate physical reasons which, added to traditional ones, help to explain the tardiness of development of linguistic nationalism in Italy, as compared with what happened in the Paris Basin, or on the English plain. It is as true humanly as it is physically that the Basin is not fully Mediterranean."

[5] Zon and Sparhawk, *Forest Resources of the World,* New York, 1923, Vol. 1, p. 214 ff. "The mountain forests occupy an area of about 6,425,000 acres, or 57 per cent of the entire forest area; the hill forests 4,074,000 acres, or 36 per cent, and the forests of the plains 749,000 acres, or only 7 per cent. The most forested are the provinces of Liguria and Tuscany (above 35 per cent) and the least forested, Apulia and the islands of Sicily and Sardinia (less than 5 per cent). . . . The forest area of Italy has undergone a considerable decrease within the last forty years. . . . Italy . . . must be classified among the countries which have a very small area of state owned forests. Small private ownership predominates. . . . The evil consequences of extensive cutting and grazing in the forests, especially in the mountain regions, attracted the attention of the Italian governments even before the unification of the Italian kingdom. It was only in 1877, however, that a law was passed which limited the rights of private owners in the free use of the forests. A law was enacted in 1910 which made obligatory upon communities and private owners the reforestation of denuded areas in the mountains. . . . The disastrous effects of deforestation of the mountains in Italy—a country of mountains—are particularly striking. As a result of the deforestation of the mountain slopes, large areas in the Alps,

bleak, except where the industrious producer of wine and olives has carried his reconquest of soil far up the sheer slope of the Apennines. The climate, therefore, exhibits substantial and sudden changes, with a wide range of aggregate figures of precipitation.[6] Much of inland Sicily, for example, is positively barren mainly because of its utter lack of rainfall. On the other hand, the Italian littoral of the southern Adriatic has a heavy rainfall. The climate of the northern sub-Alpine valleys resembles somewhat that of the New England and New York valleys; that of the northern and central urban centers has a temperature range roughly comparable with that of South Carolina, except that the plains south of the Po, and facing North, often experience severe winters, and Venetia has a prolonged, relatively dry and cold winter. The average summer temperature at Milan is not far from that of Naples; the average winter temperature of Turin only a short distance away, is lower than that of Copenhagen. The extreme South and Sicily show temperature figures well above those of Southern Florida and Texas. On the whole, the climate of the peninsula, which ex-

Apennines, Abruzzi Mountains, and also in the mountains of Sicily and Sardinia not only become unproductive, but constitute an actual menace to the agricultural land in the valleys. Small streams swelled by rain and the thawing of snow into turbulent torrents and no longer retained by forest vegetation, rush down with tremendous force and cover agricultural land with sand and stones, causing the owners enormous and often irreparable loss."

[6] Philippson, *Das Mittelmeergebiet,* 4th ed., Leipzig, 1922; Newbegin, *Mediterranean Lands,* London, 1924; Kendrew, *The Climate of the Continents,* London, 1922.

tends from about 38 to 46 N. Latitude, is favorable to white habitation.

The soil of Italy yields a comparatively wide variety of agricultural products. The country neither has to depend upon, nor does it practise, "one-crop farming." Nearly half the area of the kingdom is under cultivation, and a wide variety of production characterizes the peninsula as a whole.[7]

Compared with Italy's agricultural production, her mineral resources, so far as they have been ascertained, are relatively much less diversified and extensive. Iron, the most essential mineral in modern times, exists in scattered deposits of mediocre quality.[8] Sulphur exists in large deposits, nitrates in less striking quantity, and both are of commercial importance to the kingdom. Fuels are especially scarce; petroleum is not thought to be available anywhere in commercial quantities, and the coal deposits are nearly all of low-grade lignite. The quarries of marble, granite, and other minerals are still extensive, but their commercial importance does not bulk so large to-day as it did formerly.

II. DEMOGRAPHY AND GOVERNMENT

Not far from fifty millions of persons of Italian birth or of Italian parentage on both sides live in

[7] See, for details, Chapter V.

[8] It is estimated that 90 million tons of iron ore exist in Italy; while the definitely known deposits aggregate about 40 million tons. Operations are chiefly confined to the island of Elba; the Sardinian and Aosta deposits are seldom in active exploitation.

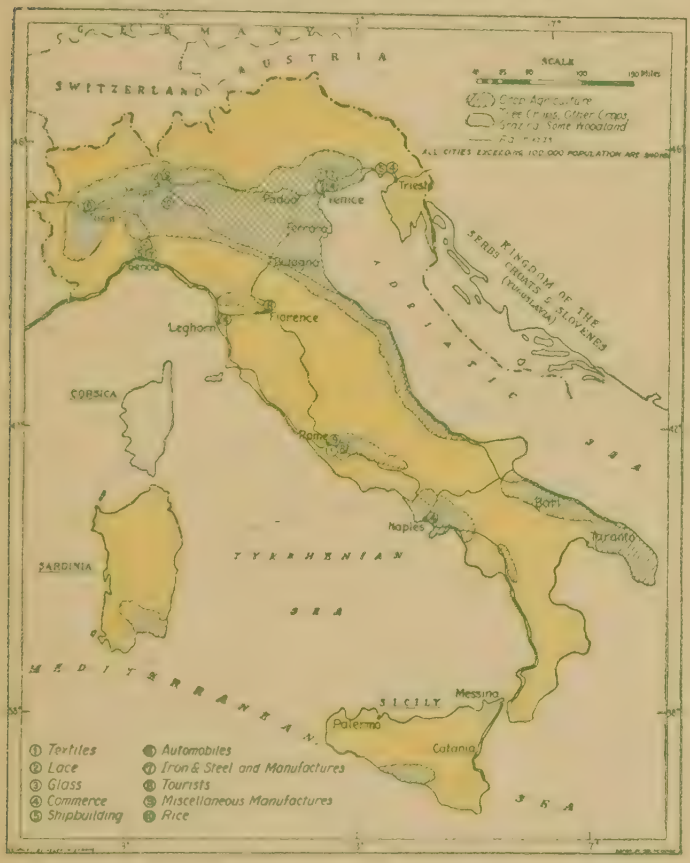
Europe and America, and of these, forty million dwell within the confines of the Kingdom itself. Of the other ten millions, a substantial number have surrendered Italian citizenship in return for that of the countries in which they live, or have automatically acquired the latter through birth on the soil of those countries; but several millions yet retain Italian citizenship through failure to acquire any other, and a great many thousand hold their Italian citizenship through the operation of treaty provisions.[9]

The population on Italian soil (leaving the colonies out of account for the present) has a density of about 323 to the square mile as compared with 184 (1921) for France and 345 (1925) for Germany. Without the relatively thinly settled stretches acquired in 1919, the rate of increase in the density of population over recent years would be quite striking; for the pre-war area of the kingdom, the density was nearly 130 per square kilometer in 1922, and is estimated to have risen to 131.2 in 1923 and to 132.7 in 1924. If one considers only the area likely to be productive throughout any reasonably measurable future, the density of population in the entire kingdom comes out at almost 150 per square

[9] A convention between France and Italy (concluded in 1896, denounced by the former country at the end of the war, but still kept provisionally in effect) recognized the right of Italians in Tunisia to retain Italian nationality regardless of the length of their sojourn. About 100,000 Italians live, more or less as permanent settlers, in Tunisia. Substantially the same situation exists in a half dozen other countries.

Population Distribution and Land Elevation in Italy

GEOGRAPHIC DISTRIBUTION OF ITALIAN AGRICULTURE AND INDUSTRY



kilometer. Unless and until present methods of producing means of existence are materially improved, any such ratio of inhabitants to units of tolerably habitable area would seem relatively quite high.

The excess of births over deaths is 440,000 per annum, or roughly eleven per thousand.[10] As in most other countries, the increase in the population is attributable rather to the average lengthening of human life than to an absolute increase in the birth-rate, which has tended to decline in recent years. The birth- and death-rates in the years 1881-85 were 38 and 27.3 per thousand respectively, and in the years 1921-25, 29 and 17. The conquest of disease and the improvement in standards of living are responsible for these striking changes in rates. Malaria, probably the greatest single handicap upon human life in Italy for two thousand years, carried off in 1910 but 2,000 as against 28,000 in 1888; and the incalculable inroads upon health and happiness

[10] The actual population physically present in the Kingdom is reported by the General Statistical office of the Ministry of National Economy in its annual *Notizie sommarie sul movimento della popolazione . . . durante 1925,* Rome, 1926, as follows:

				Increase per Thousand
December	31,	1921	38,789,827	
"	"	1922	39,246,823	11.78
"	"	1923	39,702,787	11.62
"	"	1924	40,130,724	10.78
"	"	1925	40,547,839	10.39

The figure of 42 millions reported in the press early in 1926 referred to the legal population, that is, those who *in law* reside, or belong, within the Kingdom, even though actually abroad for a longer or shorter time.

just short of causing death, which characterized its effect in the former period, had become notably less.[11] On the whole, epidemic diseases are being successfully brought under control, while the deterioration of widespread luxury has not appeared in a country the majority of whose people, of necessity, follow a simple régime of life. Perhaps the chief obstacle to the conquest of those factors which narrow down the surplus of births over deaths in both town and country, and more so in the less accessible rural sections, is the indifference with which improvements in housing have often been regarded.[12]

[11] See Osler, Sir William, *Evolution of Modern Medicine,* New Haven, 1921, p. 225. Recent malaria mortality figures show steady and encouraging progress. The number of provinces in which no trace of malaria exists increased from 5 in 1887 to 31 in 1922-23. See *Report* of League of Nations *Sanitary Commission's Subcommittee on Malaria,* Geneva, 1924; and Professor G. Mortara, *La Salute pubblica in Italia durante e dopo la guerra,* Bari, 1925.

[12] Dr. Lanfranco Maroi summarized in *Il problema delle abitazioni popolari,* Milan, 1913, the important studies previously made in this connection. His conclusion was that unwholesome housing conditions then constituted the chief obstacle to the national physical well-being. It is said that considerable progress has been made in improving housing conditions since his book was published; but the relative paralysis of construction activities during and after the war long prevented the urban congested and unsanitary areas from being replaced or reconstructed on the large scale necessary.

The consequence of the relatively hazardous condition of urban housing and surroundings was apparent when the war began. The privation of the civilian population was less successfully resisted than elsewhere. It appears that the actual civilian deaths from 1915 to 1919 exceeded what they would have if the pre-war death rate had prevailed by no less than 966,000, or 2.7 per cent of the pre-war population. This is not wholly attributable to influenza, as witness the corresponding percentages for France (1.7), England (0.7) and Germany (1.1). Professor L. Hersch of Geneva has made these calculations which will shortly be published in *Metron.*

Of the population over 10 years of age, much the largest single class—nearly a third of the total—is engaged in agriculture, about a fifth in industry, and about a twentieth in commerce and transportation. The agricultural population is distributed throughout the peninsula and the islands, dominating many regions almost to the point of exclusion of all other occupations. The quarries furnish occupation in a number of scattered localities; fisheries support a slender portion of the population along the lengthy seaboard.[13] Industry is, on the whole, rather widely distributed in the north, and at Naples. The metropolitan areas of industrial Milan, Turin, and Genoa tend to merge into a roughly triangular agglomeration of towns serving as the industrial, commercial, and financial nerve center of Italy.[14]

The kingdom is divided for administration purposes into 75 provinces, each under a prefect appointed by the Minister of the Interior, and each in turn divided into administrative districts under subprefects. There are about 9,200 communes in the country. The commune is the basic unit for purposes of civil and fiscal administration, the pro-

[13] On the very unsatisfactory technical and distributive organization of the fishing industry, the production of which could be greatly increased, see Gabellini, "La pesca in Italia," *Economia*, Trieste, January, 1925.

[14] Plans are being given effect for the improvement of facilities of transportation between the three corners of this triangle, and between Milan and the Central European and trans-Adriatic markets.

vincial authorities exercising supervision and control.[15] Both the commune and province have been given their present form and have had judicial and other attributes conferred upon them in relatively recent years, although the commune, of course, is based upon the oldest and most continuous types of local self-government existing to-day in Europe.[16] The provinces are grouped in 16 regions,[17] which have no administrative significance, although there has been a certain amount of agitation for some years looking to their erection into definite units with quasi-autonomous elective legislative and administrative machinery.[18]

The central government rests upon a Constitution which in its main lines is the work of Count Cavour, the statesman chiefly responsible for the unification of Italy in 1861. In 1849, Charles Albert of Savoy,

[15] By virtue of legislation adopted in the winter of 1925-26, all the smaller communes are now governed by officials, known as *podestà,* appointed by the central government. See Appendix D, p. 441.

[16] Carlo Ferraris, *L'Amministrazione locale in Italia,* 2 vols., Padua, 1920. This is the fundamental study of the law and practice of local and provincial administration in Italy. For military purposes there are ten districts; for naval, five; and there are numerous judicial and fiscal subdivisions.

[17] Formerly called "compartimenti," now "regioni," they include Piedmont, Liguria, Lombardy, Venetia, Emilia, Tuscany, the Marches, Umbria, Rome, Abruzzi, Campania, Apulia, Basilicata, Calabria, Sicily and Sardinia.

[18] The "regions" are wholly historical in origin, and their establishment as administrative judicial and legislative units would require extensive adjustments of regional boundaries so as to take due account of "anthropo-geographic" and "economico-natural" factors. See U. Marinelli, "La divisione dell' Italia in regioni e provincie," mentioned in *Geographical Review,* XIV, p. 472

King of Piedmont and Sardinia, granted legislative power to a national bicameral legislature. This "Statuto" of 1849 was transformed into the "Constituzione" of December, 1862. Formal amendments to this instrument have been few. Executive power is vested in the King and his Council of Ministers. Legislative power vests constitutionally in the King and the National Legislature. The members of the Senate, between three and four hundred in number, are elected, in the main, by definitely organized professional corporations or societies, so as to insure vocational representation. The Chamber of Deputies, 535 in number, is elected for not longer than five years.[19] Financial legislation reaches the Senate only if, and when, enacted by the Chamber; but beginning with 1926, the Chamber is apparently destined to play no very important rôle in the State.

In October, 1922, the administration of Italy, national and local, passed into the hands of the Fascist party. We call it party for the sake of convenience, but it is well to realize that Fascism transcends in a number of respects the ordinary concepts of political parties. Originally it was an amalgam of the nationalist party of war-time and post-war

[19] The reorganization of the National Legislature took place in the winter of 1925-26, fundamentally upon the basis of the minority report prepared by Professor Corrado Gini of the Commission (of 18 members) designated to examine the problems of constitutional reform. The report of Professor Gini is discussed by him in "Sulle riforme legislative proposte dalla commissione dei diciotto," in the *Rivista di politica economica,* December, 1925.

activity, with a congeries of movements derived from forces of discontent and protest set in motion by the war by the conditions which prevailed from 1919 through 1921. At the outset, the significance of Fascist theory was that of a pronounced reaction against the virtual State Socialism to which the war had opened the door. The paramount issue was declared to be (1919) "produttivismo versus borghesia parassitaria." [20]

When the discord and debility of the traditional parties produced a state of exhaustion, not to say stultification, in the legislative process, in 1921-22, the coalescence of groups of aggrieved peasants, workmen, veterans and the Nationalist Party enabled a resolute and vigorous leader to place himself in power. For a number of months, fractions of the Liberal and Popular parties adhered to Fascism, even for a time furnishing members of the Cabinet. A new alignment however began soon to crystallize, with the Fascist Organization on one side and the Liberal, Socialist, and Popular parties on the other.

[20] "Production versus parasitical bourgeoisie." The literature of and about Fascism, and its outstanding leader, is too extensive to be listed here. An interesting historico-sociological study of the origin of Fascism was published by Professor Roberto Michels of Basel, *Sozialismus und Fascismus in Italien,* Munich, 1925. It contains bibliographical data. Social and economic policies of Fascism have been treated in a number of studies—usually sympathetic,—such as those of L. Gangemi, *La politica economica finanziaria del governo Fascista nel periodo dei pieni poteri,* Bologna, 1924, and A. Capuano, *L'Italia nuova,* Naples, 1925. A more slender but more authoritative volume is the collection of articles by Professor Federico Flora, *Politica economica e finanziaria del Fascismo,* Milan, 1923.

A struggle for political control proceeded from the summer of 1923 through the winter of 1925-26. But it gradually became apparent that, for as far ahead as the mental eye could discern, there was little prospect of dislodging the all-powerful Fascist organization. Only its own internal dissension or the relaxation of the powerful hand at its steering wheel could make possible the return to a place of effective political equality of the older political groups thrust aside by Fascism.

During these years of trial, experiment, and experience, a robust development had taken place in the theoretical basis of Fascism. An elaborate economico-social program had been translated into law, and much of it into practice. To numerous aspects of this program, and to the effectuation of the administrative and fiscal reforms that have so signally marked the Fascist period, we shall have occasion to refer at various places in this book. We advert here to but one development, namely, the changes that have been effected—always with an almost cynical observance of the procedural requirements of legislative sanctions—in the position of the head of the cabinet. The President of the Council of Ministers, by virtue of laws enacted in the winter of 1925-26, has been elevated to an exceptional position, and the cabinet, according to the concept of those who drafted these laws, comprises responsible subalterns rather than co-ordinate advisers. The head of the Italian cabinet now virtually and law-

fully enjoys much the same power and prestige as the President of the United States, and the cabinets of the two countries bear substantially the same relation to their respective executives. The fact that President Mussolini has deemed it expedient to retain in his own hands a half dozen cabinet posts serves only to obscure the new constitutional development, and to emphasize those aspects of the Fascist régime which have been classified as "dictatorial."

Meanwhile, not unnaturally, the philosophizing and rationalizing tendencies of those on whom rested the responsibility of harmonizing the Fascist régime with the most acceptable principles of economic, social, and political science, have given a breadth and body to the theoretical basis of Fascism which has far outgrown its sporadic catchwords of 1919 and 1920, and the mixture of militant socialist ideas and nationalist sentiment that constituted its content in those years. But neither the older theories of Fascism nor its new and elaborate program has ever had much restraining influence upon, nor meaning for, the irresponsible "lunatic fringe" of ruffianism, which post-war movements often have the misfortune of acquiring. It is a far cry from the *spedizioni punitivi* of the physical-force exponents to the politico-financial accomplishment of Fascism. Eventually, it may work out that the Fascist theory of the State and its concomitant principles will acquire the force of tradition with all that

this implies in the life of the majority of the Italian people; yet the control of the public authority may then have passed into the hands of elements not formally representative of Fascism.[21] Speculation about the future of Fascism, however, is quite outside the purpose of this analysis, and even more so, indulgence in moralizing over impairments to civil and social rights alleged against the Fascist régime. Of one thing the writer is convinced, namely, that with what governmental theory, machinery, and practice Italy was endowed in the three years after the war, she must surely have been engulfed in economic chaos if no change had come in the years then approaching.

III. COLONIAL POSSESSIONS

The British and French colonial empires are concepts familiar enough to those who think of the world position and world problems of Great Britain and France. But no picture of an Italian colonial empire is readily formed, even after one has acquired an acquaintance with the extensive literature on the colonies the kingdom now possesses. Until 1925, Italian economists engaged in the evaluation of their country's international economic position have hardly ever done more than mention the existence of the colonies. From almost any broad

[21] On the political philosophy of Fascism, see Rocco in *International Conciliation*, New York, October, 1926, Ryan in the *Commonweal*, New York, November 17 and 24, 1926, Michels in *Wirtschaftsdienst*, August 20, 1926.

point of view, there seems to be little likelihood that Italy's colonies will be anything but liabilities for some years to come.

Despite their aggregate area of between six and seven hundred thousand square miles,[22] Italy's colonies possess no great natural resources yet discovered, nor adequate water supplies for European settlement, and their climate makes them unattractive to Italian emigrants. Only after intense and costly

[22] Estimates of the area of the Colonies differ surprisingly, partly on account of the unsettled state of some African boundaries, and partly because of the inclusion of "spheres of influence" in the list of colonial possessions. The following figures as to area and population are taken from the *Statistical Abstract* mentioned in note 1.

Africa (colonies)	Area (thousands of square miles)	Population (thousands)	Asia (spheres of influence)	Area (thousands of square miles)	Population (thousands)
Libia ..... (Tripolitania and Cirenaica)	406	1,070	Tien-tsin	..	10
Somalia	139	450	Ægean Islands..	1	104
Eritrea	46	380			
Oltregiuba .... (Jubaland)	35	75			
	626	1,975		1	114

In *Wirtschaftsdienst* of January 23, 1925, p. 142, an Italian correspondent estimates at 180,000 the population of Oltregiuba, which was informally turned over to Italy by Great Britain on June 9, 1925, in pursuance of agreements made prior to Italy's entrance into the war.

labor could any of them become substantially self-supporting, let alone achieve importance as sources of foodstuffs, cotton, and other products. They were obtained at a heavy outlay of blood and treasure, and they have affected the national finances unfavorably for over a generation; but taken as a whole they offer no prospect of furnishing, within any measurable time, much economic return to the kingdom.[23]

Italy's colonies are not even all certain of remaining Italian. There is a strong party in Italy, favor-

[23] As far back as 1859, Cavour was thinking about possibilities along the coast of Africa; in 1870 a large concession was secured at Assab Bay. The colonization movement gained headway in the following dozen years partly because of the French occupation of Tunis, partly because of population pressure. The motives impelling the administrations of the last three decades, regardless of political differences at home, to pursue much the same policy of acquiring colonies, were not without some superficial justification. The Mediterranean had become a sea whose southern coasts were dominated by the Northwestern European powers during the generation of Italy's struggle for unification. If Italy were to figure as a power of any consequence in the region which had for half a millennium been governed from Rome, she must secure some strategic footholds. Then there were trade and raw material possibilities, even though the greatness of the colonial empires cited in the text as examples has a more secure basis for development of this sort than anything Italy could have reasonably anticipated from the territory conceivably to be acquired by conquest or purchase (rights of discovery no longer being possible). Finally, there was the notion that a reasonably habitable colonial domain would absorb the overflow in population, the fate of which was already giving concern to economists and publicists in the early years of the last quarter of the nineteenth century. It is not unfair to say that the colonial policy has so far produced neither the political, commercial, or demographic result anticipated. A good general background of pre-war Italian colonial history and development is the Chapter by Umberto Ademolle, in Volume II of *Cinquanti anni di storia italiana*, Milan, 1911.

able to the transfer of the Ægean Islands to Greece for reasons of policy.[24]

The possession of African territory near the center of the world of Islam is perhaps only slightly less secure than the permanence of spheres of influence and mandates in Asia Minor. There has been a great deal of unrest and disturbance throughout the post-war period even in the most secure of the colonial possessions—Cirenaica and Tripolitania—the two provinces of Libia, acquired in consequence of the war with Turkey in 1911, and organized upon their present basis in 1914. The introduction of a parliamentary régime in Tripolitania, by far the most settled and promising of all Italy's colonies, has been only a modified success. Political conditions, as well as economic prospects even in Tripolitania, will have to improve notably before any large number of Italians can settle in the colonies, even though the visit of President Mussolini to Africa in April, 1926, went a long way in consolidating his country's prestige there.

The development of ports, especially the newly-acquired harbor of Kisimaio in Oltregiuba (formerly Kismayu in Jubaland), the construction of railroads, and the completion of reclamation enterprises like those in Somalia at Genale or the ambitious plan set on foot by the Duke of the Abruzzi, are the prerequi-

[24] These islands are known as the *Dodecanesos,* which means "12 islands"; there are, in fact, 13. Rhodes was occupied by the Italians in May, 1912, after being 390 years under Turkish rule. Several of the others bear famous names, like Cos and Patmos.

sites to the practical opening-up of both Libia and Italian East Africa. The prospect of profitable cotton, coffee, and cereal crops has attracted as yet by no means enough capital to place any of the colonies upon a paying basis economically.[25] This is not surprising. Industrial and commercial development at home and intensification of domestic agricultural improvements tend to absorb what margin of savings there is; and the long wait before returns can be had from individual plantation enterprises discourages those who could perhaps take small accumulations with them to the colonies. Those who have no means of their own naturally go to countries where living conditions for laborers are less trying and the prospect of advancement more certain.[26] The establishment of the Tripolitan Savings Institute (Cassa di Risparmio di Tripolitania), with

[25] In *Wirtschaftsdienst,* January 23, 1925, p. 142, it is estimated that with the judicious investment of 500 million lire, the new territory of Oltregiuba could become a successful cotton-producing area. See also same journal, June 5, 1925, p. 890. The economic value of the colonies is exaggerated by those whose imaginations blaze at any fortuitous combination of tropical areas, large native populations, and traditional commitments to colonial policies. The increase in Libia's gross trade and the great natural resources of Somalia impress too favorably a writer in the *Bankers' Magazine* of New York (December, 1923, p. 776 ff.) as well as a number of other commentators whose observations on this subject happen to be less well known in the United States. See Onor, *La Somalia italiana,* Turin, 1925.

[26] The movement of Italians back and forth from the colonies fluctuates considerably; and the net balance of migration is difficult to determine. The colonies appear to receive in the neighborhood of 20 to 25 thousand per annum. There were but 700 Italians among a minimum population of 450,000 in Somalia in the spring of 1924. See *Wirtschaftsdienst,* January 23, 1925, p. 142.

the encouragement of the government and some private support from Italy, has done something in the last three years to acquaint the public at home with the opportunities for investment in Libia. For a long time, the government is certain to have to bear the brunt of reclamation and development work in all the colonies.

CHAPTER II

ITALY'S INTERNATIONAL INCOME AND OUTGO ACCOUNTS

Italy's international economic position is determined by two great factors, the emigration process and the borrowing of foreign capital. This has been true for 20 years, is true to-day, and bids fair to be true for some time to come. The emigration process was long the more important factor of the two, but in a sense, there has been a close correspondence in their operation. The pressure of population according as the development of better standards of living tended to crowd the opportunities at home brought about a steadily growing stream of emigration, first on the continent of Europe or around its southern waters, later across the Atlantic. In due time, the result of this process was the creation of a new and important element in the international accounts of the country, namely, the remittances of the savings of these persons of Italian birth or descent employed abroad. The remittances became a balance to the excess of commodity imports, which, in a sense, made it possible for the industrialization of the country to proceed a little more rapidly than if the

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borrowing of foreign capital had been wholly contingent upon the creation of a surplus of exports over imports, or at least, the achievement of a balance of the two.

Since the war, the population problem is as important as ever, but emigration has been greatly reduced since the unrestricted national movement of peoples has come to an end. But for the fact that exceptional circumstances in underpopulated France made possible the temporary diversion of Italian emigration to that country, Italy would have been confronted by a very great decline of net emigration (that is, the excess of emigrants over repatriated Italians) from nearly one-half million, a typical figure just before the war. And such as the post-war emigration has been, its character, as we shall point out in Chapter VII, is radically different from what it used to be.

The second factor is the use of foreign capital. This began to operate a full quarter of a century ago and its effect became more and more conspicuous in the decade before the war. It was pushed to the first place as the paramount factor in Italy's economic life during the great struggle because Italy incurred, in those years and just afterwards, an enormous public and private indebtedness abroad. Even more, in a sense, than the factor of population pressure—as expressed in emigration very largely—the factor of borrowing foreign capital has determined the financial, commercial, and industrial

situation of the country and consequently has come to shape its financial and economic policies generally in more and more striking fashion since the war. The two factors have become very closely interrelated.

In order to get at the real nature of these two paramount factors of emigration and of borrowing, and to measure their effects, we must isolate their operation over a series of years as far as possible. This analysis amounts to setting up a statement, showing what Italy owes, and why, and what amounts other peoples owe Italy, and why. Such a statement goes by various names; the one we deem most descriptive is that of "international income and outgo accounts." When we reach the most dependable results our material warrants, we shall have a fair indication of the relative importance of all traceable factors which affect Italy's international economic position, including, of course, the two major factors we have emphasized. To this object the present chapter is devoted.[1] We shall raise a number of issues to the separate discussion of which the successive chapters will be given over.

I. THE COMPOSITION OF THE INTERNATIONAL ACCOUNTS

Before we go into the main task of this chapter, we shall, to the extent of a few paragraphs, discuss the nature of the international income and outgo

[1] The detailed data on which this analysis is based will be found in Appendix A.

accounts, to which we have just referred. Across the endless and manifold exchange of goods, services, gifts, and other values between individuals on this planet there often run the lines that mark off one political jurisdiction from another. Transactions which cross frontiers may, and, of course, nearly always do, have quite the same characteristics as those which begin and end within the scope of the same jurisdiction, laws, and customs. But, in addition, they take on a special characteristic, due to the fact that each of them, no matter how small, represents a contribution towards the making or maintenance of international standards of value. Each transaction throws into theoretical scale-pans an additional fraction of weight. To one pan gravitate those transactions which involve payments made by the given country for goods, services, and the use of capital; to the other, payments to be received by the given country for goods, services, and capital. The one pan, in other words, represents outgo, the other income. But a great many elements offset each other. Thus, for example, the importation of goods may offset their exportation to a large extent but not altogether; the excess of exports, then, is all that is left on the scale-pans, as we proceed to get down to lowest terms. So with the services people render each other internationally, by means of shipping facilities, insurance and so forth; nearly always an irreducible element is left in the international scale-pans when all possible cancellations have been made.

There are two types of transactions entering into consideration when the international accounts are studied. One category includes those transactions involving exchanges of values completed within a relatively short time. Here of course, belong the bulk of selling transactions, and "service" operations. Here, too, belong gifts for public or private purposes, such as remittances to relatives, and charitable donations. The other category embraces those transactions which do not conclude in a relatively simple exchange of values, but involve rather the operation of credit mechanisms of one sort or another. In this group we have to place borrowing transactions of all sorts, public and private, for whatever purpose they may have been made.

The two categories just described have certain common characteristics, but they are essentially distinct in their significance as indices of, no less than in their effect upon, the international economic position of the country under study. If we take a given period of time—a year for example—the two kinds of transactions will appear to affect the international balance of accounts in the same way. They seem to exert comparable effects upon the balance of accounts. For example, the proceeds of a large borrowing transaction enter the credit column beside the proceeds of a gift to a missionary body; the net payments sent abroad to cover the expenses of travelers automatically affect the debit pan alongside the net payments of interest on indebtedness in-

curred in the past. Items are constantly entering and leaving the scale-pans. It makes no difference, so far as relates to their effect on the pans, how we would classify them if we were trying to determine the status or obligation of the individual debtors and creditors respectively concerned.

Moreover, so long as we allow to remain in the scale-pans all the items in *both* categories—that is, all the credit transactions as well as those current in character—we cannot very well get at the real significance of the country's position. This is because the credit mechanism operates to maintain a theoretically perfect equilibrium at all times. If cash is not given for goods or services, some sort of credit instrument which represents a claim for future payments, is tendered and accepted. Our chief interest consists in finding out the extent to which the country in question is paying as it goes, or doing enough better than paying as it goes to be able to build up foreign investments from year to year, or perhaps do so much worse than paying as it goes that it runs more and more heavily into debt to foreigners. It is, therefore, necessary to separate the trade and service transactions from the borrowing or lending operations.

For Italy, the primary items entering into the international accounts include, first of all, the excess of imports of commodities over exports, which has existed uninterruptedly since the peninsula was unified, and probably since the conquest of Carthage.

Specie has also been imported more or less continuously in recent times, notably in the years just after the beginning of this century. The remittances sent to their relatives in Italy by Italians working abroad have long been an important credit item. The expenditures of tourists or others, the means for whose maintenance come from abroad, has also been a traditional source of international income, and a large one. The payment of interest for the use of foreign capital invested in public and private securities, in business operations, or in realty, over and above receipts from abroad on corresponding accounts, has been a debit item—once not formidable, but of late years, of tremendous significance. The payment for the facilities of commercial exchange, commissions, brokerage, and the like, has apparently also been regularly a debit item, even though small, until, in the last few years, it is evidently tending to be cancelled by earnings of the same sort. Income from the services of Italian shipping to foreigners has grown from modest pre-war dimensions to quite substantial figures. Finally there are minor items—government disbursements, donations, and whatever else, that have ordinarily worked out in a small net credit, except during abnormal years.

II. INTERNATIONAL ACCOUNTS BEFORE THE WAR

While it would be of interest, perhaps, to review the state of Italy's international accounts for a full generation before the war, it is hardly possible to go

back of 1900 for the important items, with the exception of the import and export figures which are available for a number of years. As for the other items, it is difficult enough to get data for the first decade of this century, to say nothing of earlier years. For the sake of simplicity, and perhaps of emphasizing the fact that, when all is said and done, we are dealing with what are nearly all approximate estimates, we shall use five-year averages for the years 1901 to 1905 and 1906 to 1910, and the average of the four years 1911 to 1914.

The most important item on the outgo side is the continuous excess of imports. For reasons which are explained in our résumé of the commercial history of the country[2] the export deficiency has grown steadily. The table which appears below presents the five-year averages since 1870. The increasing significance of imports of cereals, fuel, and other raw

AVERAGE YEARLY DEFICIT IN TRADE AND SPECIE, 1871-1914

Period	Millions of lire	Period	Millions of lire
1871–1875	159	1896–1900	163
1876–1880	117	1901–1905	385
1881–1885	240	1906–1910	1,077
1886–1890	437	1911–1914	1,064
1891–1895	181		

materials essential to industry is the chief reason for the widening gaps between imports and exports.

[2] See Chapters V, VI, and X; and Appendices E and G. The trade and specie figures, year by year, are shown in Appendix A, p. 264.

Commercial policy, for a variety of reasons, took on a strongly protectionist complexion, and stimulated industrial expansion. Industries, through the ability thus acquired to operate within slender margins of cost and slenderer margins of profit, fought their way into foreign markets.

For the purposes of our computation of Italy's international balance, we have taken 400 million lire as the approximate and representative figure for the trade and specie deficit in the years 1901 to 1905; 1,100 millions as the average for 1906-1910; and 1,200 millions as the average for 1911-1914.[3]

Deducting estimates of Italian earnings from estimates of Italian payments under the heading of interest on public and private securities—profits of business, commercial and banking commissions—we have another net debit each year, which our calculations lead us to fix at 120 millions, 160 millions, and 175 millions for the three periods respectively.[4]

Here, then, are the major groups of outgo items, and we submit them below in summary form:

INTERNATIONAL OUTGO, 1901–1914

(Yearly averages in millions of lire)

Period	Commodities and specie	Interest, profits, and commissions	Total
1901–1905	400	120	520
1906–1910	1,100	160	1,260
1911–1915	1,200	175	1,375

[3] See Appendix A, p. 279, for explanation of these figures.
[4] See page 282.

On the income side, remittances and tourists' expenditures have been of major importance. There has been a wide—indeed, one might say a widening —range of estimates regarding the amount of the remittances before the war from Italians employed abroad. We incline to take conservative figures in this regard, and have adopted round estimates of 300 millions as the annual average for 1901-1905, and 450 million lire as the average figure in each of the two periods thereafter. The transition from, say, 1904 and 1905 to 1906 and 1907 was, of course, not so sharp as these quinquennial averages indicate.

Tourists and other travelers have added materially to Italy's international income ever since the peninsula became the focus of the Mediterranean world many centuries ago; but in modern times the item has become of the greatest importance. We have adopted 350 million lire, 450 millions, and 425 millions as the three average figures for the period under review.

The earnings of the merchant marine were modest, but, as things went before the war, they were something. The best available figures appear, on the average, to be 65 millions for 1901-1905, 85 millions for 1906-1910, and 115 millions for 1911-1914.

Finally, a miscellaneous group of earnings and donations served to bring up the total income. We have concluded that it is safe to set down averages for this final "omnibus" category, of 125 millions for 1901-1905, 150 millions for 1906-1910, and 200 mil-

lions for the third group of years.[5] The summary of income estimates follows.

INTERNATIONAL INCOME, 1901–1914

(Yearly averages, in millions of lire)

Period	Remittances from Italians abroad	Expenditures of tourists	Shipping	Miscellaneous	Total
1901–1905	300	350	65	125	840
1906–1910	450	450	85	150	1,135
1911–1914	450	425	115	200	1,190

Bringing together two sets of estimates, we reach the following result.

NET INTERNATIONAL INCOME, 1901–1914

(Yearly averages, in millions of lire)

Period	Income	Outgo	Net
1901–1905	840	520	+ 320
1906–1910	1,135	1,260	— 125
1911–1914	1,190	1,375	— 185

Bearing in mind all the time the approximate character of these estimates, we may nevertheless summarize the conclusion to which they lead us. In the first few years of this century, Italy's international income exceeded her aggregate outgo, on all accounts, by several hundred million lire—perhaps 300 millions. In the middle third of the period

[5] For detailed discussion of these figures, see Appendix A, pp. 284 ff.

under review, income failed to cover outgo, on the average, but the gap was not startling. In the years 1911-14, the excess of outgo over income became greater, perhaps nearly double the figure that had obtained for the average years between 1906 and 1910.

Put in its relation to what took place in the economic development of Italy during these years, the statement of estimates we have reached does not seem at all unreasonable. Italy's population, when the century began, was able to pay for its own food imports and to cover its foreign outlays for other things from its receipts for services rendered to foreigners in Italy and elsewhere. A slight surplus of international income existed, as a rule; and the repatriation of public debt largely held abroad, which marked those years, was effected from that surplus.

Then came years of industrial development, necessitating the importation of much foreign capital. While earnings for services increased, they did not keep step with the outgo. Deficits tended to recur; not large deficits, but deficits none the less. They were covered by borrowing on private account in foreign money markets, in a great variety of ways. Resort to borrowing became more frequent, and a floating indebtedness of not far from a half billion lire had been built up on private account when the war came. The interest on this accommodation had to be added to the interest for the use of from 2.5

to 3 billion lire of foreign capital permanently invested in Italy and her enterprises.

III. THE INTERNATIONAL ACCOUNTS: 1915-1919

It will be apparent that the outbreak of the war necessarily affected all the items entering into Italy's international accounts. Even if she had not entered the struggle, her trade relations, not merely with the belligerents, but with the other neutrals, would have been profoundly affected. The remittances tended to fall off because of the hasty return to Italy of several hundred thousand reservists, and because, also, of the initial depression in the principal countries of immigration. The visits of tourists in course during the summer of 1914 were abruptly terminated, and none returned for five years; while the number of sojourners was reduced to negligible proportions.

Ten months after the war began, Italy entered in the conflict, on May 20, 1915. Immediately, the effect was shown upon her trade and specie balance, the import figures rising to prodigious heights because of war prices and because of large quantities of war materials brought into the country. Industry expanded under a sort of forced draft in order to meet military requirements, and this in turn brought about an enormous importation of fuel and raw materials. All this, of course, necessitated large credit operations. The government borrowed on a large scale from Great Britain, and, after the spring of

1917, from the United States. The banks borrowed, and the commercial and industrial establishments of Italy borrowed, directly or through intermediaries. Italy's great contribution of men to the struggle is in no sense whatever belittled by the observation that it was made possible by the upbuilding of a gigantic system of supplies which ultimately rested upon the credit of the government of the United States.

For a great many reasons it is preferable to treat the war period as a unit, endeavoring to arrive at average figures, if one prefers to use annual averages, but pointing out that the results are necessarily less precise than for the period just prior to the war, because of the uncertain basis of money calculations. It is only by a process of subtraction of estimates ascertainable for the beginning of the war, from those more or less correct at its end, that we are able to get estimates covering the period as a whole.

In the table below appears the excess of imports

THE TRADE DEFICIT, 1914–1919

(In millions of lire)

Year	Excess of imports	Approximate gold value of excess of imports
1914	713	706
1915	2,171	1,802
1916	5,302	4,162
1917	10,681	7,209
1918	12,694	8,822
1919	10,557	5,490
Total	42,118	28,191

over the exports as officially reported, together with the approximate gold value on the basis of an annual average of the dollar in paper lire.

About 38 billion lire would appear to be the best estimate of the aggregate disbursement on account of commodities and specie rather than the reported total of 42 billions. The annual average, therefore, would be in the neighborhood of 7,600 million lire. As nearly as it is possible to compute gold values in a period of rapid fluctuations, we reach 5,400 million lire as the gold lire equivalent of this sum. The items of commissions, profits, dividends, and interest on the accumulated pre-war private indebtedness work out at an average of roughly 250 million gold lire. The total, therefore, of the debit account amounts to just short of eight billion lire paper per annum, or about 5,650 million lire gold. This, however, does not include provision for the interest on foreign borrowings—public and private—following the outbreak of the war. In the following statement appear tentative estimates of the outgo account.[6]

INTERNATIONAL OUTGO, 1915–1919

(Yearly average)

	Millions of gold lire	Millions of paper lire
Excess of commodity imports.....	5,400	7,600
Commissions, profits, dividends, and interest on pre-war private debts.	250	350
Total.....	5,650	7,950

[6] For details on the outgo accounts in these years, see Appendix A, pp 287 ff.

The remittances fell, as we have indicated, but they did not disappear altogether and in the last year of the war there was a material increase because of the high wages paid in certain countries of immigration. We have adopted the figure of 900 million lire as the annual average of the five-year period, 1915-1919. On the basis of authoritative Italian investigations, we have accepted figures which gave us 450 million lire as the annual average income from the merchant marine, international railroad services, and the like. The expenditures of tourists (including official visitors) amounted, on the average, to not more than 150 million lire. The miscellaneous income yielded on the average 300 million lire, the sale of currency to foreign speculators being an important element in this total toward the end of the period. The statement showing these results in round numbers is as follows.

AVERAGE YEARLY INTERNATIONAL INCOME, 1915–1919

	Millions of gold lire	Millions of paper lire
Remittances from Italians abroad..	600	900
Tourists' expenditures	300	540
Shipping and related earnings.....	100	150
Miscellaneous	200	300
Total	1,200	1,890

When we compare these averages, we see that a deficit of not far from 4,450 million lire gold developed each year through this period.

NET INTERNATIONAL OUTGO, 1915–1919

(Yearly average)

	Millions of gold lire	Millions of paper lire
Outgo	5,650	7,950
Income	1,200	1,890
	4,450	6,060

This prodigious deficit was covered by the proceeds of borrowing operations of three distinct types. Government borrowing yielded, on the average, some 5,400 million lire, paper (approximately 4,000 millions, gold). The sales of new lira securities brought in an average of 200 million, paper (140 millions, gold). Finally, private borrowing yielded 460 million lire, paper (310 millions, gold). Thus by the end of the year 1919, Italy had not only incurred an aggregate public debt payable in foreign currencies and amounting to nearly 20 billion gold lire, but she had also on her shoulders the burden of new long-term public indebtedness payable abroad in lire and amounting to about 700 million gold lire; while on top of this, had to be borne a floating debt to the outside world on private account of fully 2 billion gold lire. Italy, therefore, clearly stood far behind the position she had occupied before the war, in respect of relative freedom from heavy obligations to other countries. Her position was now greatly weakened, and long years of recuperation were indispensable.

IV. INTERNATIONAL ACCOUNTS SINCE 1919

The year 1920 is memorable the world over for large-scale creation of debt, principally for speculative purposes. Along with a greater excess of imports [7] than ever, Italy appears to have borrowed in that year, on private account, an amount approximating the equivalent of 750 million gold lire. But, on the other hand, the remittances increased and the other items of income showed promise of recovery. The following year, however, was one of liquidation and curtailment. With an abruptness which in itself was wholly demoralizing, the year 1921 brought about a radical change in the state of the accounts. We show in the table on p. 39 the results for these two years.

[7] For official figures of imports and exports see Appendix A.

THE TRADE DEFICIT, 1920–1925

(In millions of lire)

Year	Excess of imports (paper values)	Approximate gold value of the excess of imports
1920	15,047	3,762
1921	8,952	1,969
1922	6,463	1,583
1923	6,103	1,464
1924	5,070	1,166
1925	7,882	1,576

For several of these years, notably 1920, we have regarded as conclusive the arguments for taking a smaller figure to represent the excess of imports over exports. See p. 297.

INTERNATIONAL INCOME AND OUTGO, 1920–1921

	Millions of gold lire		Millions of paper lire	
	1920	1921	1920	1921
Outgo:				
Excess of commodity imports	3,200	1,900	13,000	8,500
Interest, profits, dividends, and commissions	300	220	1,250	1,000
Total	3,500	2,120	14,250	9,500
Income:				
Remittances from Italians living abroad	975	660	4,000	3,000
Tourists' expenditures	375	440	1,500	2,000
Shipping and related earnings	180	135	750	600
Total	1,530	1,235	6,250	5,600
Net deficit	1,970	885	8,000	3,900

Thus, in each of these years, immense deficits had developed in the international income and outgo accounts of Italy. In 1920, apparently, this deficit was covered by government borrowing abroad (not always, however, repayable in foreign currencies) to the extent of some 3,400 million lire paper (830 millions, gold); by the sale of securities and like measures, to the extent of 1,900 million lire (475 millions, gold); and by floating lire indebtedness on private account of some 2,700 millions in paper (660 million, gold). In 1921 the three amounts corresponding to these three types of borrowing operations appear to have been respectively 500 million paper (110 millions, gold), 300 millions, paper (65

millions, gold) and 3,100 millions, paper (700 millions, gold).

Nothing could be more discouraging than Italy's position at the beginning of 1922. In excess of 22 billion lire in gold were owed by the government to foreign creditors, while fully 3 billion gold lire were owed by individuals, in one or another form, to foreign creditors. For all of this mass of foreign obligations, productive assets of but the most slender proportions had been obtained. At best, the prospect appeared to be one of prolonged impoverishment.

Slowly the forces of reconstruction began to operate and in particular the excess of commodity imports diminished steadily through 1924. The other important outgo items—namely, interest, profits, dividends, and commissions for the use of foreign capital—fell off likewise, in terms of gold. On the other hand, the income items at least held their own in terms of stable values and, in the case of shipping, showed considerable increase. There were no further borrowings on behalf of the State; there was, on the contrary, in at least two of the three years, some repayment of indebtedness incurred in the past. In terms of gold values, the three years 1922-1924 seem to have an average excess of imports over exports of about 1,300 million, and the average outlay by way of service charges for the use of foreign capital approximated 270 millions.

The deficits on account of import surplus and debt

charges together, outbalance, by fully 125 millions in gold, the total of average earnings from remittances, tourists' expenditures, shipping, and the minor credit items. The good harvest of 1923, and the resolute decision to abandon foreign public borrowing which affected nearly all of this period materially benefited the situation of the international accounts, and made possible the application of some 800 millions of paper lire (about 180 millions in gold) to the repayment of public and private debts or to new investments. A statement covering these years is submitted in this connection.

INTERNATIONAL INCOME AND OUTGO, 1922–1924

	Millions of gold lire			Millions of paper lire		
	1922	1923	1924	1922	1923	1924
Outgo:						
Excess of commodity imports	1,450	1,305	1,000	6,000	5,500	4,500
Interest, profits, dividends, and commissions	225	195	190	925	800	850
Total	1,675	1,500	1,190	6,925	6,300	5,350
Income:						
Remittances from Italians abroad	615	600	540	2,500	2,500	2,400
Tourists' expenditures	615	600	550	2,500	2,500	2,500
Shipping and related earnings	120	210	200	500	900	900
Miscellaneous	95	90	85	400	400	400
Total	1,345	1,500	1,375	5,900	6,300	6,200
Net deficit	230	....	....	1,025	....	....
Net surplus	....	....	190	....	....	850

The burden of the excess of imports continued to weigh down the lira exchange throughout 1925 and the first half of 1926. It is true that the large harvest of 1925 affected rather favorably the import figures for January-June, 1926, as compared with those of the first half of 1925, which had followed upon the mediocre harvest of 1924. But the industrial expansion that had taken place under the stimulation of various favorable factors from the summer of 1923 to that of 1925, called for large increases in imported raw materials. The comparison of the figures for 1924 and 1925 shows the steady pressure of industrial requirements in the latter year, despite the credit uncertainties which prevailed until the debt funding negotiations were begun. The table on page 43 presents the figures for these two years, in values for the 8 official categories; the quantity data would correspond substantially, as the shrinkage in the lira was not noteworthy.

The excess of imports, in short, amounted in 1925 to almost 8 billion paper lire or approximately 1,500 millions in gold; and in the early fall of 1926, as this is written, there is every indication that the excess of imports in 1926 will attain at least the same height. Indeed, had the industrial expansion kept up the pace which it set in the mid-winter months of 1925-26, on the strength of the credit grants,—and expectations,—intimately bound up with the debt funding negotiations, it is quite clear that the trade

deficit of 1926 would have broken all records, despite the reduction in importation of foodstuffs consequent upon the bountiful harvest of 1925. But the industrial expansion experienced a check, namely,

ITALY'S FOREIGN TRADE IN 1924 AND 1925 *
(In millions of lire)

Classification	Imports		Exports	
	1924	1925	1924	1925
I. Livestock, foodstuffs and tobacco	4,838.0	6,555.9	3,762.1	4,611.0
II. Seeds, oils, fats, vegetables, wax...	954.1	1,175.6	394.9	409.2
III. Textiles and their derivatives	5,424.8	6,586.1	6,649.3	8,358.2
IV. Metallic ores, metals, and their derivatives	2,349.0	3,915.9	958.7	1,405.3
V. Non-metallic minerals, bricks, porcelains, glassware .	1,920.9	2,223.8	468.7	541.5
VI. Wood and manufactures of wood..	756.9	1,120.5	196.1	219.0
VII. Chemical and pharmaceutical products and dyes	1,412.2	1,727.7	434.8	569.2
VIII. Other merchandise.	1,723.8	2,851.4	1,506.3	2,161.2
Total	19,379.7	26,156.9	14,370.9	18,274.6

* *Gazzetta ufficiale, Supplemento,* 1926, no. 42.

the inability of exporters to offer Italian products abroad at prices that would meet those of French manufacturers. The textile industries in particular were severely affected. Nevertheless, raw materials, partly-fabricated materials and manufactured goods continued to enter in greater volume and value in

the first half of 1926, than in the corresponding months of 1925. The figures follow:

ITALY'S FOREIGN TRADE; JANUARY–JUNE, 1925 AND 1926 *

(In millions of lire)

Classification	Imports		Exports	
	January-June		January-June	
	1925	1926	1925	1926
I. Livestock, foodstuffs and tobacco	4,319.1	3,441.2	2,058.9	1,929.4
II. Seeds, oils, fats, vegetables, wax...	614.7	632.3	245.7	100.7
III. Textiles and their derivatives	3,796.6	3,579.8	3,980.6	3,772.2
IV. Metallic ores, metals, and their derivatives	1,912.6	2,144.0	699.5	704.2
V. Non-metallic minerals, bricks, porcelains, glassware .	1,074.5	1,297.4	277.9	280.5
VI. Wood and manufactures of wood..	535.5	617.0	111.3	112.6
VII. Chemical and pharmaceutical products and dyes	865.4	925.7	278.4	330.7
VIII. Other merchandise.	1,313.7	1,627.1	953.1	1,090.8
Total	14,432.1	14,264.5	8,605.4	8,321.1

* *Gazzetta ufficiale, Supplemento,* 1926, no. 193.

While the imports fell off in consequence of the 167 million lire shrinkage in foodstuffs brought in, the exports declined by 284 millions. The relative deflation which began in the late summer of 1926 will probably result in a lessening in the imports of raw materials and semi-manufactured products; and

thus, temporarily, the gap between total imports and exports will prove to have been narrowed for the entire year 1926. But a protracted depression extending over the next two or three years would serve to increase the extent of the trade deficit as compared with the boom years 1923-1925.

We now revert to the service items where Italy's earnings are to be sought. The expenditures of tourists must have amounted to fully 700 millions, gold, and the aggregate of remittances appears to have been around 600 millions, gold. The earnings of Italian shipping were fully as great as in preceding years, and there is more than a possibility that they attained a total of fully 200 million lire, gold. If these estimates are correct, the income aggregated 8,000 millions of paper lire, or 1,600 millions in gold.

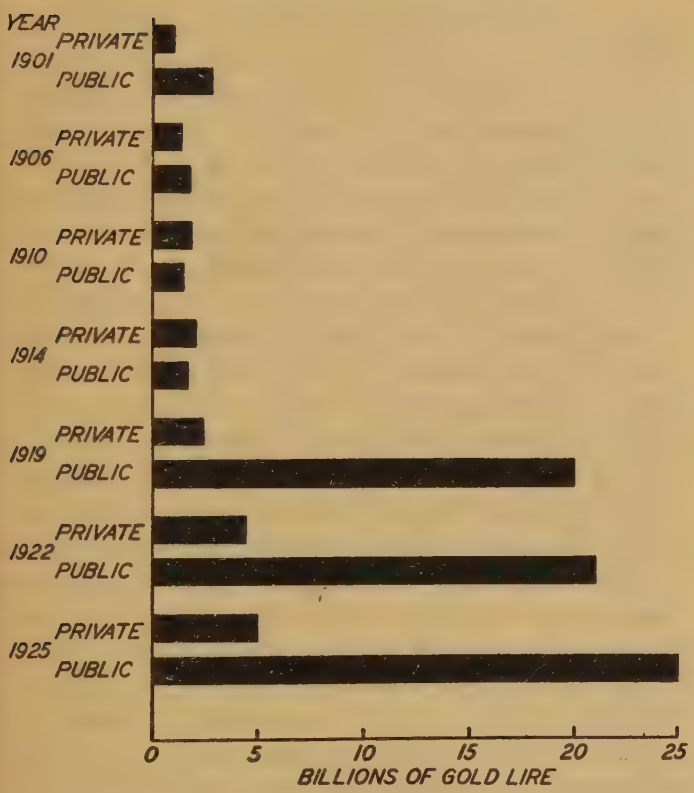
But this sum can hardly have met the outgo requirements. We saw that the commodity deficit was approximately 8 billions, paper, or 1.5 billions, gold. The net interest charges can have been no less than a billion lire in paper, so that something more than 9 billions, paper, or 1.8 or 1.9 billions, gold, would have been required to counterbalance the excess of commodities and the outlay on account of accumulated foreign indebtedness of all sorts. The difference, then, between the available "invisible" income of 1.6 billion gold lire, and the outgo requirements of 1.8 or 1.9 billion gold lire, had again to be covered by borrowing.

V. GROWTH OF FOREIGN INDEBTEDNESS

The data presented so far in this chapter indicate that Italy has been almost continuously a borrowing country. Before the war Italy at times found it impossible to meet her expenditures abroad without resort to borrowing. The war period necessitated foreign borrowing on a very large scale; and the post-war years have shown a continuance of such borrowing, partly for the purpose of covering deficits in her international accounts, and partly with a view to promote industrial expansion. An approximate indication of the net changes in Italy's international economic position since the beginning of the century is shown in the chart on p. 47.

The greater part of the increase in Italy's foreign indebtedness since 1914 has been the result of public borrowing. The foreign debt on private account has, however, continued to increase both during and since the war. The investments of foreigners in Italian enterprises and securities at the end of 1925 are probably no larger in terms of gold than they were in 1914. They may be estimated, on an exceedingly conservative basis, at approximately four billion gold lire. Such an indebtedness would be the cause of no serious apprehension, were it not for the complications presented by the large public debt and also the floating indebtedness on private account in the form of short-time loans and foreign holdings of Italian currency. The problem of meeting the

FOREIGN INDEBTEDNESS OF ITALY, 1901-1925 *



* The figures represent net indebtedness at the end of calendar years, the estimated investments of Italians in other countries having been subtracted from foreign investments in Italy. The pre-war foreign holdings of Italy's public debt has been calculated roughly on the basis of the proportions indicated in note 7 on p. 267. The figures for 1925 assume a minimum new private indebtedness of about one half billion gold lire to have been incurred in that year,—and include, in the public debt item, the interest due to foreign governments under arrangements then prevailing.

charges on the public debt owed abroad will be discussed later, as will that of meeting private obligations; but a word as to the extent of the latter seems desirable at this place, prefaced, however, by a reminder of the tentative character of its basis.

Authoritative estimates of the volume of Italian currency controlled abroad in the summer of 1925 range from four to six billion paper lire. On the basis of all the evidence available, we are inclined to believe that, by the spring of 1926, the aggregate must have been as much as six billion paper lire and possibly as high as eight billions, amounting in gold, at exchange rates then prevailing, to from 1.2 to 1.5 billions. The reader will bear in mind that this is not a net figure, since the Italian government and banks had at that time some credits abroad in the form of bank deposits and security holdings; but these credits probably did not exceed 2.5 or 3 billion paper lire, that is, 500 to 600 millions in gold.

Six billion paper lire would represent roughly 30 per cent of Italy's total outstanding currency in 1925. The fact that in a period of active business and tight money nearly one-third of the circulating medium of the country has come to be under the control of foreigners is a commentary upon the economic dependence of Italy which calls for little emphasis. But besides the holdings of Italian currency by foreigners considerable sums are owed by Italians to foreign banks and commercial interests in other forms than foreign deposits in Italian banks,

or holdings of Italian currency. Information regarding these accounts of relatively early maturity is meager and not wholly trustworthy. It is not unlikely that this floating indebtedness, towards the end of 1925, ran up into some millions of gold lire. In short, we feel that it has been on the side of conservatism to estimate the total indebtedness of Italy to the outside world, late in 1925, as some 30,000 billion gold lire of which 5 billions represented all varieties of private obligations, and the rest the public indebtedness to foreigners on bases then in effect, but subsequently, of course, much modified.

What happened in the winter of 1925-1926 accentuated Italy's dependence upon international economic developments. The funding of the external public debt and the New York loan for the stabilizing of the currency had as their most impelling motive the improvement of the standing of Italy's industries in the money markets of Great Britain and the United States. Foreign borrowing on private account has proceeded more freely in consequence of these operations,—perhaps not as rapidly as industrial and financial people of importance in Italy might wish, but about as rapidly as it would be reasonable to expect in view of the currency developments of the winter of 1925-26. The borrowing has served in part to consolidate floating indebtedness arising out of large commercial operations, and in part to facilitate the extensive purchases of industrial equipment and other capital

goods, to which we referred above in connection with the import figures of the winter of 1925-26.

We are thus brought to the heart of the fundamental problem which confronts Italy's economic system. An important and far-reaching reorganization of that system has had to be carried out during a period when conditions have been undergoing rapid and yet obscure and puzzling changes; and this reorganization involves widespread readjustment of occupation and of methods of production and distribution. The very changes themselves in world conditions have stimulated and, to some extent, forced the reorganization. Because of the fact that so little elbow room, if one may use such a phrase, was available within which to carry out a general reorganization of the country's economic system, many have placed great reliance upon the use of foreign capital in all sorts of public and private enterprises, and thus the complication of factors is increased.

Will it be possible for the greatly enhanced industrial equipment of Italy to provide a notable expansion of her commercial relations with old and new markets? And will this expansion be on such a scale as to permit exports gradually to overtake imports, while at the same time foreign borrowing is held in check, and the great volume of lira holdings abroad is brought back to Italy? The seriousness of these conditions cannot be overemphasized. Foreign borrowing on public and private account has been

accelerated since the summer and autumn of 1925 and its cost to Italy has been increasing. It is of paramount importance, therefore, that this cost be reduced lest its burden on the country's international accounts become insupportable. As for foreign holdings of lire, it is clear that unless the bulk of them be effectively and wholesomely absorbed in investments within Italy, or at least revert in major part to Italian control, the condition of the currency must of necessity become more, rather than less, precarious.

Before we can examine these questions, as we shall do in Chapters X, XI, and XII, we must review the state of the nation's public and private finances, the position of industry and agriculture, and the demographic problem of main importance, that is, emigration. The following six chapters are devoted to this survey.

CHAPTER III

BUDGET AND PUBLIC DEBT BEFORE THE WAR

We turn now from the consideration of Italy's international financial relations to the administration of her internal fiscal affairs. In the present chapter we shall discuss briefly the administration of the Italian budget and the growth of the public debt from the unification of Italy in 1861 to the outbreak of the Great War, while the following chapter will be devoted to a discussion of fiscal operations since 1914.[1]

I. THE PRE-WAR FISCAL SITUATION

The budgetary history of United Italy in the four decades before the war is that of an agricultural country passing through the initial stages of industrialization and having to crowd into a relatively short time the work of constructing railroads and otherwise developing its resources. Italy never quite caught her breath in those years. From the

[1] For detailed data and discussion bearing on the problems raised in these chapters see Appendix B, Budgetary Practice, p. 329; Appendix C, Public Debt, p. 360; and Appendix D, Taxation and Fiscal Policy, p. 424.

early sixties on, the budget deficits grew steadily, because of the heavy expenses for military purposes and for public enterprises which the new state was called upon to bear. That "best of all taxes, to be sparing" [2] naturally would not characterize a new régime, called upon either to undertake directly or to guarantee nearly every sort of enterprise. Moreover, the consolidation of all the agencies of government of the former divisions of the peninsula at the outset made for confusion and waste rather than economy. Many of the taxes were in actual conflict with each other [3] and it required a long time to create a new and reasonably efficient national taxation system.

The financial history of the Italian kingdom from 1861 to 1914 may be conveniently divided into three distinct periods. The first, stretching from the proclamation of the unified kingdom shortly after the successful issue of the war with Austria to the end of the conservative party's domination of the government in 1876, was the period of rapid territorial consolidation, of vigorous development of the national spirit, of gradual economic improvement until about 1873, when depression set in. Considered from the point of view of financial policy and accomplishment, it was a period of inchoate tax

[2] Cicero's remark—*"optimum vectigal parsimonia."*

[3] "Italy, which, before 1860, was the museum of Fine Arts, has become the museum of taxes."—Saverese, *Lettere di un contribuente a un uomo di stato,* 1868, quoted in E. Lémonon, *L'Italie économique et sociale,* Paris, 1913, p. 15.

programs, of cumbersome fiscal machinery, and of almost constant deficits. Yet it was also a period of statesmen eminent in the field of public finance who stood for "economy to the very bone." [4] With the name of Sella must be associated the most sustained attempt to achieve a balanced budget, which was in fact actually reached in 1875. But for Sella's vigilant resistance the cost of the railroad construction program begun in the middle sixties would have left a much larger total of national debt than was actually the case. His comprehensive plan for the reorganization of the entire financial system of the kingdom, presented in 1871, does not suffer by comparison with any project of the sort submitted by any of his successors.

In 1876, control of the national legislature passed from the Right to the Left, where it has remained practically without break,[5] but with many shifts of leadership from one wing to another of the Liberal party, until the advent of the Fascist administration in October, 1922.

The second distinct period in the financial history

[4] Chief among these were Quintino Sella (Minister of Finance 1862-64, 1864-65, 1870-72), Marco Minghetti, and Antonio Scialoja. Minghetti is noteworthy for his part in the framing of the national banking law, and the adoption of railroad construction subsidies. Scialoja devised a plan for scientific tax reform.

[5] Except in so far as wartime cabinets represented coalitions. The terms "Right" and "Left" must not be taken to signify groups of even the semblance of formal continuity which can be claimed by political parties in the United States. The terms "Conservative" and "Liberal" in Italian politics have been descriptions of general tendencies and points of view, rather than badges of identification with permanent organizations.

of Italy may well be said to begin with this important change in 1876 and to extend some 22 years, that is, until practically the close of the century. The Conservatives had been working from 1873 to 1876 in the face of economic conditions that were quite adverse in Italy as well as elsewhere in the world; and in view of those conditions their financial administration was distinctly creditable. The depression continued, however, for several years, and it was not until after 1879 that a period of relative prosperity set in.

The new régime may have had commendable aspirations with regard to the more equitable distribution of tax burdens, but its foreign policies, its costly and unproductive African policy, and its effort to create and maintain large military and naval establishments soon unsettled the budget, and brought on new difficulties in the way of chronic deficit financing. The monetary and credit problems of pre-war Italy were never more acute than during these two decades after 1876, particularly after the brief but unsuccessful resumption of specie payments in the eighties. Commercial policy, too, was the subject of serious contention toward the end of this period and a struggle in tariff reprisals was carried on with the French republic through the nineties. Add to these unsettling factors the renewal of the world economic crisis in the early nineties, which most severely affected Italy, and one can understand the development, in the middle years of

the last decade of the nineteenth century, of a disillusioned and dispirited attitude.[6]

The opening of the third period of the pre-war fiscal history of the kingdom is hardly to be identified with any one administration, since it was a gradual change. But it is not inappropriate to describe it as well under way with the end of the Rudinì cabinet in 1898, and the inauguration of the cabinet of "liberal concentration and reconciliation" of General Pelloux, in November of that year. The end of this period was marked by the emergency measures of the winter of 1914-15, in consequence of the outbreak of the Great War.

There was a steady diminution in some of the less productive forms of public expenditure, while military and naval outlay increased very slowly. The investments in railroad construction during the preceding generation, which has so notably augmented the public debt, were beginning through their stimulation to travel and trade to create a much larger field for taxation, both direct and indirect. The protective tariff at length began to increase customs revenues. Direct taxes, also, were nearly all more productive, as a result of the increase in the volume of business and the definite stabilization of the currency upon a basis of redemption. These last factors were reinforced by greater prudence in colonial and

[6] On the pre-war monetary situation, see Chapter VIII; on the commercial policy disputes with France, Appendix E; and on deficit financing and fiscal policies, Appendix B, p. 337, and Appendix D, p. 425.

foreign affairs, and a less intransigeant commercial policy, the conflict with France having been adjusted. The period as a whole, it may be recalled, was one of great prosperity and expansion in all countries, being interrupted only for brief intervals as in 1907-08.

Even the surcharged and clouded years just preceding the Great War witnessed less unfavorable consequences in Italy than one might have expected in view of the precarious character of many of her sources of revenue, and in view, especially, of the strain which the 14 months' war with Turkey in 1910 and 1911 [7] imposed upon her.

The structure of the Italian budget has changed but little in half a century. For the purposes of the present chapter, we are not concerned with administrative reorganizations and adjustments which took place during or since the war. As things stood in the years just before the war, budgetary arrangement and practice represented about what they had been a generation earlier.

The budget consists of four principal categories. The first category contains a record of all revenues and expenditures except those of capital account. In the second category are entered revenues and expenditures on account of railroad construction,

[7] Formally terminated by a treaty signed at Lausanne, October 18, 1912. There was no willingness on the part of the Italians in general to admit the real extent of the economic strain of the Tripolitan war, according to Lémonon, in the book cited in note 3 of this chapter.

while the third category is reserved for all other forms of capital, revenues, and expenditures. The fourth category is rather difficult to describe in precise terms; but it is reasonably accurate to characterize it as a miscellaneous assortment of accounts, and in particular, (1) those relating to funds held by the government on behalf of or account of communes and other local bodies, and (2) funds in transit. These four categories make up the budget accounts of revenue and expenditure. It is to the budget as here understood that ministers of finance always refer, and it is around the budget in this form that debates in the national legislature always revolve and frequently rage.

The budget as just described is the budget of the assessable and ascertained revenue on the one hand and lawfully authorized expenditure on the other. It is, in fact, the *authorized budget.* One might assume that the results shown in the budgetary account of revenue and expenditure represent identically the record of the money *actually received* and *actually disbursed.* This assumption would not, however, be correct even in years of peace and relative freedom from unforeseen contingencies. When periods of great confusion, such as the years after 1914, set in, the budget of authorized revenue and expenditure cease to have any connection with the real course of receipts and disbursements.

The actual receipts and disbursements, then, constitute another set of accounts, and while one ought

not to contrast for a given year the budget seen under this aspect with the budget as authorized, it is not unfair and it is often quite necessary to scrutinize the two sets of accounts carefully item by item for a period of several years. A great many payments by the treasury and collections on its behalf are effected after the fiscal years within which they were authorized in the case of expenditure, or assessed in the case of revenue. There is, therefore, almost always a floating mass of items not credited or debited to the years in which this payment finally takes place, but rather to the years in which the items were respectively sanctioned. When such payments are made, and collections effected, the amounts involved appear in the budget of receipts and disbursements. The accounting officers then properly credit or debit these items to the years when they were authorized or assessed. Eventually, of course, all the accounts of past years are adjusted and definitely closed by the administrative accounting officers and judicial auditors responsible under the law.

Intervals of years, however, may elapse before complete adjustments of past fiscal periods can be completed, and consequently these items which appear in the cash record of a given year and which are not to be credited or debited to that year but to preceding fiscal years, are brought together in a series of suspense accounts. These are termed residual accounts (*Residua*) and from them are with-

drawn the pending items according as the process of closing up the records of the past enables a single year to be disposed of definitely. This system worked fairly well in ordinary times but as we shall see, it engendered difficulties during the war.[8]

The reader who is at all acquainted with the practice of fiscal authorities will hardly confuse the *budget* accounts (under either of the two aspects described in the preceding paragraphs) with the *treasury* accounts. The latter constitute mainly the record of outstanding treasury credits and obligations, and the cash account.[9]

The classification of budgetary accounts tends to conceal the true situation. For many years, economists, jurists, and men in public life have challenged the fundamental theory underlying the division of the Italian budget into categories. But the difficulties have remained down to the present time except in so far as the reorganization of the administrative apparatus of the Ministry of Finance, under the Fascist régime has been able to overcome them. The underlying theory of this division is not peculiar to Italy, but on the contrary has affected budgetary development in a good many other countries of Europe and America. Its idea is to segregate all so-called "unproductive" expenditure and current

[8] But as far back as 1894, the late Vilfredo Pareto vigorously condemned the misleading character of the separation of the budget into categories enjoying a fictitious equilibrium based upon borrowing and bureaucratic mystification. "Les finances italiennes," in *Journal des économistes,* March 15, 1894.

[9] See Appendix B, p. 330.

administrative outlay from expenditure on capital account, generally termed "productive." The latter variety of expenditure includes the construction of railroads and other great public works calculated to improve the conditions of living and the means of producing wealth. The contention is often advanced in defense of this division of the accounts, that the cost of bettering the hygienic standards, the educational facilities, and the material apparatus requisite to the efficient development and utilization of the nation's resources, human and material, cannot be spread in any proper way over the annual revenue and expenditure of the government, but must be set off by themselves, with more or less directly allocated income if they are at all of a character such as to produce income. Any discussion of the theoretical value of such divisions of the budget accounts is best left to technical studies on public finance; and the nature and direction of Italian expert discussion of the subject may be gauged from the literature cited in Appendix B.[10]

Whatever the underlying theory, there were in any case certain conditions which made the practice of segregating ordinary administrative expenditure from large scale capital operations a rather convenient device to which to resort. In the half century between Italian unification and the outbreak of the Great War, and particularly in the earlier decades of this period, there was an urgent necessity

[10] Appendix B, p. 332, note 1.

that a great many things be done promptly in the way of building up the country's resources. According to the opinions of the persons whose views prevailed on public policies in those years, only the State could be depended upon with security to carry through or even to initiate these projects. After all, foreign capital was not available on any appreciable scale in the early years to undertake these tasks; nor could the scanty domestic resources of the country be mobilized for this purpose under private leadership. Thus Italy experienced a development which stimulated both the process towards centralization and the instinctive tendency of bureaucracies steadily to expand the scope of official jurisdiction through ingenuous and persistent embroidery on broad statutory authorization and mandates.

As in other countries, so in Italy, the purport of legislation could in the course of time be definitely altered through interpretative regulations issued in constantly greater volume and often leading to the creation of quasi-autonomous sets of accounts. It is true that the national legislature set up devices for fiscal control and even elaborated them to the point of cumbersomeness. But neither the legislature nor those to whom it delegated its authority appeared to have the time, the resistance, or the guidance adequate to exercise, to their theoretical limit, these devices of control. The tendency to create the new accounts had to be caught up short every so often, the most striking example of the attempt to reassert

the principle of budgetary unity being, of course, the consolidation in 1920-21 of all the autonomous accounts that had grown out of the war. But even in the pre-war period, incidents of this character occurred on a smaller scale.

The chief disadvantage of the division of the budget has been the fact that one administration after another has been able to conceal from the Italian people the formidable reality that expenditure has not been covered out of non-borrowed resources, but by means of a mortgage on the future. The Italian people have rarely been brought to realize that what appeared to be surpluses did not in fact exist, and that apparently insignificant deficits were not seldom decidedly larger than the first category of the budget would indicate. It is not intended, of course, to criticize adversely the judicious resort to short-term borrowing. It is frequently necessary for the public treasury to secure funds by such means in order that it may have enough cash on hand to meet impending demands. What is, however, quite definitely dangerous is the use of elaborate devices to set off all borrowing transactions of any magnitude and of relatively long duration in water-tight compartments by themselves, because the public will hardly ever take the trouble to explore these compartments, and consequently will hardly ever be able to appraise correctly the annual statements of surplus or deficit in the first, or principal, category of the budget.

After 40 years of tinkering, the system of tax administration still gave unsatisfactory results. The Italian government for all its experimentation before and since the political unification in 1861, was still, on the eve of the Great War, unable to collect sufficient tax revenues to cover its outlays. A brief survey of the taxation system will reveal the sources of this difficulty.

Three broad classes of taxes made up the taxation structure of pre-war Italy,—direct taxes, indirect taxes on consumption, and taxes on business transactions. The direct taxes were three in number: the tax on land, that on the rental value of buildings, and that on income from other sources than land or buildings.

The land tax was based on valuations long out of date and sadly lacking in uniformity. In 1886, the reform of the whole system of land taxation was effected and a great national land valuation began: a task not yet completed in 1926, although provisionally carried through for the majority of the provinces, on the basis of average values obtaining in 1874 and 1875 (corrected, since 1923, so as to represent approximate values of January 1, 1914).

The tax on the income from buildings or their rentable value if not actually producing income, was another prolific source of dispute, because of the inequalities in application and the antiquated standards of valuation which were employed. It gave more trouble than it was ever worth, certainly in a

community of large commercial interests and of experience in the creation of intangible values.

Taxes on income derived from other sources than land or buildings constituted Italy's main resource in the second half of the pre-war period, and, of course, in the years since the war. The tax on income was established in 1864 as the first really national tax. In 1866, it was made a graduated income tax, with a basic rate of 8 per cent, which was offset by low valuation and liberal exemptions. As the years went on, the rate was increased. By 1894 it had risen to 20 per cent; but 20 years later, it had been so adjusted as to range from 8.62 per cent on salaries of public servants to 20 per cent on income from securities, with exemptions ranging from 1,500 to 2,000 lire. Evasion became as common as it was elsewhere in Europe, government officials tending to base estimates of income on visible outlay for the upkeep of establishments, thus making the tax one "not on income, but on expense." [11]

The consumption taxes were not nearly as productive as the volume of bitter discussion regarding their imposition might lead one to imagine. The Italian tariff was a protective device, and the revenue it yielded was a secondary consideration except in certain years of financial straits in the last quarter of the nineteenth century. The flour tax (*macinato*) was a source of much bickering until its

[11] An apt phrase of René Stourm, the well-known French authority on budget problems. See Appendix D, pp. 426-7.

abolition in 1894; the wheat tax took its place as an injudicious, not to say capricious device for the purpose of stabilizing prices for landowners at times when domestic supplies might be abundant. Then there were excise taxes on the manufacture and sale of gas, electricity, alcohol and its derivatives, sugar and the like, and beer and other beverages. The ubiquitous fiscal burden, however light it might be, harassed the individual at every moment he might decide to make a sale or a purchase. It is another example of the curious inconsistency of pre-war fiscal policies in Europe, content to lumber along with a bundle of imposts that nibbled around the spending processes of the citizen rather than required a share of the results of his productive activity, that were inequitable in their general effect, and were arbitrary and unrelated one to the other or to any basic principle.

Non-borrowed revenue from other sources than taxation included the income from the rental or concession of the national domain; industrial monopolies (including royalties from the Elban mines, franchise payments for the operation of canals and forest enterprises, surpluses from railroad concessions—very rare surpluses they were—and the like); and the proceeds of the well-known "fiscal" monopolies —salt, tobacco, matches, quinine, and the lottery.[12]

[12] The last named humorously described as the "imbeciles' tax." See Vol. II, p. 359 of the work of DeSantis cited in Appendix D, p. 436, note 15.

These monopolies yielded substantial gross revenues in the aggregate, chiefly because of the tobacco and lottery items; but their administration was costly, in the nature of the case, and the net contribution to the resources of the State was disappointingly small.

As for the railroads, they represented a net loss every year. For some years after the government had begun its ambitious program of construction, the attempt was made to operate various lines directly. In 1878, the government undertook to manage all the roads which it had constructed or purchased; only some railroads in southern Italy remained in private hands. The results of government management were so discouraging that in 1885 the management was turned over to private concessionnaires on contracts with minimum liability of 20 years' operation. For a half dozen years or so, the government's share in the profits amounted annually to a few million lire—the maximum being 10.3 millions in 1887—but soon a succession of deficits began. In 1905, the government resumed the operation of the roads, creating a Board of Railroad Administration with its own financial régime. This system yielded an average of some 60 million lire to the general budget but, of course, this sum was much more than offset by the interest and other charges accumulating on the indebtedness due to railroad construction. All things considered, the construction cost was less than might have been expected in view of the difficult nature of the construction prob-

lems offered by the peninsula; it tended to be quite as high when the government carried on the work directly as when it contracted out the construction itself with official guarantee of interest and amortization.[13]

Having referred to the treasury's need of funds in consequence of the failure of non-borrowed income to meet authorized expenditure and in consequence, also, of its program regarding public works, we would probably serve little purpose in analyzing in detail the spending policies of the government in pre-war years. So far as the maintenance of the departments of civil administration, national defence, and the other executive services was concerned, we have already indicated that the rôle of continental and colonial importance which Italy essayed with motives to her good and sufficient in the three decades preceding the Great War, had told on her slender resources, and promised to make further inroads upon them because of political commitments and conflicting economic interests.[14]

Systems of local taxation often conflicted with the

[13] For data relating to tax receipts and other income as well as expenditures, see Appendix B, pp. 339 ff, and Appendix D, pp. 425 and 436.

[14] Francesco Nitti, later Minister of Finance and head of the cabinet, wrote in his monograph *La Ricchezza d'Italia*, Naples, 1904, p. 10: "All indices foreshadow an improvement in Italy's economic condition. . . . If Italy will follow a policy of shrewdly minding her own business and of working industriously and intelligently, she will be able to develop all the energies which are latent within her. The trouble is that every now and then, our country thinks of war, . . . the consequences of which are not realized until it is over."

national federal system. There is an impression generally prevailing outside of Italy that local taxation was not a matter of much consequence in that country before the war. This is far from exact. By the time the war began, the taxpayers were contributing to provincial and communal governments some 600 million lire annually, about one-third as much as they paid in to the national government.[15] There was a wide diversity in the financial aptitude and prudence of these local administrations, as one might expect from their great number and varied background of self-government and divergent local economic conditions. Curiously, it had been reserved for some of the largest communities to have almost the worst experiences in the matter of local finance and taxation. In the 30 years between 1879 and 1909, for example, the aggregate population of 11 of the largest cities in Italy increased 56 per cent, their aggregate expenditures 183 per cent, and their non-borrowed receipts 150 per cent. These receipts included substantial income taxes, consumption taxes, local sales taxes, supertaxes on the national income taxes, numerous fees, grants from the national treasury, and proceeds of sales of public property.

The consequence of the overlapping of these local taxes and those of the nation was the development of a most uneven situation, which produced a good deal of rancor. These controversies sometimes

[15] On the details of local taxation, see Appendix D, section 5, pp. 440 ff.

ended, because of political exigencies, in the government having to carry the load of this or that provincial or local operation. Naturally the line of demarcation between national and local finances became more and more hopelessly muddled under such conditions. Naturally, too, the taxpayer not infrequently had to face an aggregate of national and local taxes equal to one-half of his total net income. This situation was just as likely to occur in the progressive and prosperous municipality as in the unproductive and mountainous countryside. Such a development could only encourage evasion on a large scale. The gigantic task of reorganizing these administrations so as to produce a systematic and efficient fiscal machine was sometimes discussed before the war, but it was never undertaken until the Fascist Administration took it in hand in the winter of 1925-26.

Budget deficits persisted throughout the pre-war period. The reasons for this fact are to be found in the two characteristic conditions with which we have chiefly been concerned in this section. In the first place, the budget was so constructed as to make borrowing relatively easy. Even though nothing but long-term borrowing on capital account was supposed to be covered in the second and third categories, in actual practice, short-term borrowing incurred for the purpose of covering deficits could be and often was absorbed in those capital accounts. In the second place, the failure of the tax system to

operate smoothly from an administrative point of view and to bring in, year in and year out, all the revenue estimated and assessed led to frequent shortages in the actual collections. We present the summary of aggregate revenue and expenditure for the three periods to which we refer at the beginning of the section.

AGGREGATE OF REVENUES AND EXPENDITURES, 1862-1914 *

(In millions of lire)

Period	Revenue	Expenditure	Excess of expenditure over revenue
Jan. 1, 1862–Dec. 31, 1875	11,239	15,991	4,752
Jan. 1, 1876–June 30, 1898	32,714	35,764	3,050
July 1, 1898–June 30, 1914	31,991	36,804	4,813

* The year 1861 offers special difficulties as explained in Appendix B, p. 335. By revenue is meant, gross non-borrowed receipts, ordinary and extraordinary. By expenditure is meant total disbursements under the first, second, and third categories of the budget, that is to say, both current and capital expenditure.

While it is true that some slight portion of the capital outlay included in the expenditure totals here shown was recovered through reimbursements not shown in the revenue figures,[16] nevertheless, the aggregate excess of expenditure over revenue would not thereby be substantially reduced.

[16] As for example, minor sums reimbursed by France for joint tunnel construction account; see Appendix B, p. 334, and Appendix C, p. 361.

II. THE GROWTH OF THE PUBLIC DEBT

In the 50 years preceding the Great War, the public debt of Italy showed a steady growth. In the order of their importance, the causes of the growth of the public debt are as follows: (1), the financing of ordinary budgetary deficits; (2), the construction of railroads and the underwriting of other public utility enterprises; and (3), the issue of public securities in consequence of banking and monetary difficulties, in the late seventies and again in the decade beginning with 1893.

The composition of the debt on June 30, 1914, (in millions of lire) was as follows:

Classification	Principal amount	Interest
Consolidated perpetual	9,922	531
Consolidated redeemable	4,918	
Floating and accounts current	926	50 (about)
	15,766	581 (about)

The consolidated perpetual debt is an annuity (known as *rendita*), redeemable at the option of the debtor but not of the creditor, while the consolidated is an annuity redeemable at stated dates. In addition, there were potential liabilities in the form of guaranteed communal and municipal loans (Rome, Naples), Land Mortgage Bank securities, bonds of the Sicilian Sulphur Consortium, and the like.

The Italian public debt was on the whole well

managed.[17] The treasury was closely in touch with the money market conditions of the world, and took advantage of changes in market rates to effect favorable conversions on a large scale. The most important of the operations was that of 1906, whereby the interest charge on roughly eight billion lire was lowered from 4 to 3.75 per cent, with provision for its automatic reduction, after five years, to 3.50 per cent. This served to bring about a rapid repatriation of foreign holdings of Italian consolidated stock because foreign investors did not take kindly to the reduction. The importance of payments abroad on this account was thus diminished.[18] The effect of the conversion upon the aggregate annual interest charge on long-term public debt was decisive. The outlay on account of interest on consolidated debt dropped from 562 million lire in 1905-06 to 461 millions in 1906-07, a figure lower than had prevailed for more than 20 years.

The debt policy in the years between the conversion of 1906 and the Italo-Turkish War aimed at keeping a third or perhaps more of the total debt outstanding in the form of convertible issues ready to be transferred into perpetual debt whenever

[17] This statement applies to the larger problems of finance; there may have been adequate basis for technical criticism.

[18] The conversion is closely associated with the names of Luigi Luzzatti, the economist, and Bonaldo Stringher, both in public office at the time; Majorana was Minister of Finance. It might be said in passing that only the wealth of foreign exchange, made available by the remittances of emigrants, in the main, enabled this transaction to be carried out.

market conditions would make low interest rates feasible. The events of 1912-13 disarranged that program somewhat, and the Great War of course definitely put an end to it. The sale of more *rendita* and other securities became necessary in 1912 and 1913, and the interest charge began rapidly to increase, the total (except for charges on floating debt) amounting to about 530 millions for the fiscal year 1913-14.

If the situation of Italy's public finance in the decades just preceding the war had briefly to be characterized, it would, perhaps, be just to say that financial policies were neither better nor worse than those generally prevailing in Europe, but that fiscal administration presented more than the usual number of instances of imperfect adjustment of indispensable expenditure to reasonably realizable income. Yet as things stood on the eve of the war, there is a bare possibility that Italy could have gone along for some years making substantial headway in developing facilities of production and communication without causing unduly rapid increase in the public debt.

CHAPTER IV

THE FISCAL SITUATION SINCE 1914

In the 12 years following the outbreak of the Great War, the public finances of Italy were plunged into a formidable state of confusion for years, and then painfully restored to order. In this chapter, we shall follow this budgetary development during and since the war, and review the growth of the public debt, foreign and domestic, taking account of recent taxation policy. In the three appendices (B, C, and D) devoted to fiscal matters, will be found the details on which the conclusions here presented are based.

I. THE BUDGET DURING AND AFTER THE WAR

Participation in war requires that the public treasury be ready to meet any and every request for media of payment which the military administration of the country may make; and prevailing standards of living, as well as consideration for the political exigencies of parliamentary bodies, made it seem expedient at the outset of the war to broaden

the scope of wartime expenditures, so as to include the assurance of food supplies and other necessities of life for the civil population. Even before Italy entered the war, and while a political struggle was in progress over the decision she would make, preparation even for a defensive policy involved large-scale borrowing operations. In the following section we shall refer in greater detail to this borrowing; it is sufficient here to point out that even in the fiscal year 1914-15 (during only the last six weeks of which Italy was actually in the war), more than half the actual disbursements had to be made with borrowed money.

The distinction between the two sets of accounts, which we pointed out on page 58, becomes of great importance in the period now under review because of the fact that the widest disparity soon came to exist between the authorized expenditures and collectible revenues on the one hand, and, on the other, the actual receipts and disbursements. So widely did they differ, that residual or suspense accounts rapidly forged ahead until they equalled actual receipts and disbursements. It was only in 1923 that the mysterious labyrinth of the *residua* began to yield to exploration, and eventually to orderly absorption in the current accounts.

The tables on p. 77 show the Revenue and Expenditure Accounts—what the government officially denominates as the Budget—and the Receipts and Disbursements Accounts.

REVENUE AND EXPENDITURE ACCOUNTS, 1914–1926
(In millions of lire)

Fiscal Year	Revenue	Expenditure	Excess of expenditure
1914–15	2,730	5,828	3,098
1915–16	2,863	12,550	9,687
1916–17	5,503	21,661	16,158
1917–18	7,697	26,532	18,835
1918–19	9,914	33,337	23,423
1919–20	15,513	27,882	12,369
1920–21	19,288	37,493	18,205
1921–22	20,442	37,599	17,157
1922–23	19,556	24,470	4,914
1923–24	20,533	21,156	623
1924–25	20,440	20,023	417 [a]
1925–26	20,390	18,901	1,489 [a]

[a] Excess of revenue over expenditure. For certain figures for 1925-26, see Chapter IX, p. 210.

RECEIPTS AND DISBURSEMENTS ACCOUNTS, 1924–1926
(In millions of lire)

Fiscal Year	Receipts	Disbursements
1914–15	2,340	4,812
1915–16	2,894	9,997
1916–17	3,701	17,389
1917–18	4,971	26,106
1918–19	5,921	25,846
1919–20	8,649	20,515
1920–21	11,281	23,946
1921–22	14,233	20,428
1922–23	16,099	18,054
1923–24	18,654	16,007
1924–25	20,566	18,490
1925–26	21,499	18,697

The extent to which the items differ from year to year in both sets of accounts is striking. Perhaps

the best gauge of tendency towards financial equilibrium is to be found in a comparison of the authorized expenditures column in the first of these tables with the actual receipts column in the second table, whereby it will be observed that collections tended steadily to overtake new commitments, and finally passed them in the two years beginning with 1924-25.

STATE OF THE PUBLIC TREASURY, 1914–1926
(In millions of lire)

As of June 30	General fund	Authorized credits	Total resources	Obligations	Excess of outstanding obligations over resources
1914	347	1,435	1,782	1,170	612 [a]
1915	178	1,672	1,850	3,068	1,218
1916	328	1,891	2,219	4,934	2,715
1917	492	2,529	3,021	10,014	6,993
1918	1,108	5,374	6,482	18,467	11,985
1919	920	12,128	13,048	30,209	17,161
1920	2,473	13,267	15,740	32,602	16,862
1921	2,291	20,631	22,922	38,252	15,330
1922	3,065	17,201	20,266	42,092	21,826
1923	4,580	6,045	10,625	41,836	31,211
1924	1,944	5,173	7,117	38,425	31,308
1925	1,277	2,717	3,994	29,754	25,760
1926	3,003	6,488	9,491	29,711	20,220

[a] Excess of resources over obligations. For discussion of figures for 1925-26, see p. 80, n. 1.

One of the most interesting indices of the magnitude of the financial strain is the state of the

Treasury Cash Fund from year to year. In the table just shown appear, first, the cash on hand; second, moneys in process of collection and other credits; third, all outstanding and unsettled liabilities, including all current Treasury warrants, checks and the like.

At the beginning of the war, the general cash fund was quickly exhausted and the Treasury's resources thereafter consisted largely of credits as yet unrealized. As the payments indicated in the second table on p. 77 kept piling up, and the assessed and collectible revenues set forth in the first table failed to come to hand promptly, the cash balance had to be built up by more and more frequent resort to borrowing. After the war, the needs of the State began slowly to diminish, and the credits became more liquid. The retirement of short-term indebtedness or its conversion into debt of more distant maturities permitted the cutting down of the miscellaneous obligations of the Treasury and the reduction of the cash balance. Formerly substantial, this balance had been brought down, by June 30, 1925, to 1,277 million lire. During the fiscal year 1925-26, however, there were important changes in all of these items, as well, apparently, as in the underlying policy.

The general fund rose by June 30, 1926, to 3,003 millions, while the authorized credits were well over double their total a year earlier; the total "resources" of the treasury exceeded their aggregate of

June 30, 1925, by five billion lire. The source of the increase lay mainly in foreign credits and the continued sale of treasury certificates. The Minister of Finance stated in the late spring of 1926 that he felt a slight increase in the floating debt caused by this continued sale of treasury certificates to be wholly warranted in view of the popularity of the bonds among the public desirous of safe investments, and in view, also, of the necessity for extensive resources of cash. The currency restoration program announced in September, 1926, was clearly in mind when the policy of deferring the further contraction of the floating debt was determined upon in the earlier months of that year.[1]

More than two-thirds of all that was disbursed between 1915 and 1925 went in the form of direct and indirect war costs. In Tables IVa to IVd of Appendix B, the reader will find analyses of these expenditures, so far as *authorized,* which relate to the war. The rapidity with which progress is being

[1] In the total of "obligations" for June 30, 1926, in the table on page 78, treasury certificates account for 16,837 millions. Outstanding treasury warrants amounted to 1,148 millions, as against 1,623 millions the previous year. The superficial manner in which foreign critics see fit to pass upon the financial affairs of a given country is well illustrated by the effort made in the summer of 1926 by reputable publications outside of Italy to attach great significance to the volume of these warrants on May 31, 1926, when they amounted to 16 billion lire. The magnitude of the treasury's foreign exchange operations during the fiscal year, and the normal volume of treasury transactions accumulating towards the end of the year quite suffice to explain the state of the accounts on May 31, without affording the slightest basis for inferential conjectures as to "round-about borrowing through the deferment of disbursements."

made in this direction can be comprehended only by reading in full the exposition of the residual accounts which we submit in the last section of Appendix B, wherein the *residui* are analyzed down to June 30, 1925, (Tables VIII and IX). Within a few years, perhaps, the definitive liquidation of these accounts can have taken place, and their publication in final form will doubtless follow. Only when this occurs will it be possible to write the budgetary history of the war and rehabilitation years, and once for all accept or modify the severe judgments of Italian economists who have indicted the financial management of the years 1915-1922 as wasteful and improvident.[2]

Yet, as we look back on the record of those years, we realize how little time the fiscal authorities had to think out their policies carefully and for any considerable period ahead. For the most part they—and bureaucracies, as well as legislatures, elsewhere—had to grope their way through unprecedented situations. Military outlays knew no bounds; the

[2] Professor Federico Flora, an eminent authority on public finance, has characterized the war finances of his country by a pungent phrase: "The State, reckless waster of the money of others" (*lo Stato dilapidatore senza freni del denaro altrui*), *La politica economica e finanziaria del Fascismo,* Milan, 1923, p. 36. Professor Serpieri, a distinguished member of the Cabinet in 1923, condemned the "helpless inability of the administrations which followed the war to meet expenses," *Politica agraria del governo nazionale,* Rome, 1924, p. 9. Many other such expressions could be cited. Foreign observers have been less severe, as for example, Professor Jèze, *Les finances de guerre de l'Italie* (only to 1916, however, when it was published), and Ernest Lémonon, *L'Italie d'après-guerre, Paris,* 1922, Chapter IV.

cost of food, fuel, and other supplies that had to be imported mounted from month to month; war industries had to have funds for their tremendous payrolls and outlays on materials, pensions, allowances, and subventions. From every direction came demands for currency, and currency could be had only by unlimited use of the national credit. By the closing years of the war, taxation was furnishing, on the average, barely an eighth of the aggregate expenditure.

The three fiscal years from 1919 to 1922 were marked by staggering deficits. The momentum of war-time ideas and methods was too great to make post-war readjustment easy or expeditious. The mirage of indemnities was too glittering and the anticipation of post-war trade expansion too lively to permit war-time methods of finance to be quickly overcome. The war, as has already been said in another place, greatly stimulated the process of industrialization of the country; and consequently by 1919, war profits had grown so rapidly that the prospect of a gradual approximation of dependable direct revenues to indispensable expenditures may have seemed by no means hopeless. The expenditures which could be discontinued as soon as the war should end and pending obligations liquidated, doubtless appeared to the generality of observers, in 1919, to be much the larger portion of the total. Only the most far-sighted students were disinclined to accept the general assumption that price levels

would remain stable and that world consumption would not only automatically snap back to pre-war volume, but would even lose no time in exceeding the latter in order to make provision for several years' enforced refraining from normal consumption. Except for these discerning but unheeded few, persons in business or public life generally took it for granted that, whereas the cost of military operations would shortly cease to figure in treasury accounts, the yield from greatly augmented business activities—even though taxation rates were duly reduced in the near future—would enable the government to reach equilibrium at a reasonably early date and lay the groundwork for a comprehensive plan to reduce and ultimately to extinguish obligations incurred because of the war. But the disillusionment which Italy had to share with the rest of the world as to the utter baselessness of these assumptions was destined sooner or later to find reflection in the national finances.

In 1920-21, taxation produced approximately 1,167 million lire more than in the preceding fiscal year. The borrowing at home and abroad had added to the national debt over 50,000 million lire by the close of 1919. Much of this borrowing, as will be seen later, was on a gold basis. In the three following fiscal years, 35,000 millions were borrowed either through perpetual or short-term domestic loans, bank advances, or callable credits opened abroad. Nothing has been more severely condemned than

these increases in debt in the post-war years. "More new debt in two years than in the 53 years before the war!" observes Professor Flora. But, of course, it has to be borne in mind that in 1919-1921, all the mushroom independent accounts created during the war began to be absorbed in the main budget. In those years, too, contracts were being liquidated; worse yet, the burden of the bread subsidy—running as high as four billion lire annually—was still being carried. Those in power manifested no intention to make the people go through a period of sacrifice and of steady withdrawal of the government from their support; in their administration of the railroads was to be found, perhaps, the least excusable example of their unwillingness to curtail unnecessary expense.[3] The fiscal year 1921-22 closed, therefore, with the treasury still far from any prospect of finding the means to pay off its accumulated borrowings to cover the gap between expenditures and non-borrowed revenues.

The three fiscal years beginning in 1922 showed a distinct improvement. Methods of collection were becoming steadily more efficient even before the change in government which occurred in the fall of

[3] There were 14.6 employees to every kilometer of the State railroads in 1921. The average pay rose from 9,553 lire (1920–21) to 10,946 lire (1921–22). A responsible engineer, after an exhaustive study of the problems of railroad finance, recommended the reduction of 39,000 employees, and the suppression of 1,500,000 passes. The old formula of the Socialists had been, according to Professor Flora, "the railroads for the railroad workers"; it became after the war "the railroad receipts for the railroad workers, and the railroad expenses for the taxpayers."

1922, in consequence of which the long reign of the Liberal Party came to an end and the first frankly conservative administration in many years took charge of the government.[4]

It is, of course, not within the purview of this study to examine the reasons for the collapse of the Liberal régime, which had governed the country alone or in coalitions for two score years, but reference will be made presently, in connection with recent taxation policies, to some of the motives which may have exerted considerable influence in arousing the conservative classes to energetic measures. The outstanding fact, whatever its cause, is that the fiscal years beginning July 1, 1922, have shown a constantly closer approximation of revenue to expenditure; and a definite surplus of revenue over expenditure was achieved in the fiscal year 1924-25, the first in many years.

To the Fascist Administration is due full credit for this decisive improvement. The gradual drop in the budget deficit which was in prospect when, in 1920-21, all the accounts were resolutely consolidated into the four pre-war "categories" (Receipts and Expenditures, Railroad Construction, Capital Movements, and Transfer Accounts) would have proceeded regardless of any change in the direction of public affairs, it will readily be granted; but the

[4] At the outset, to be sure, the Fascist Administration included a number of elements classifiable as "Center" or even "Left"; it was a coalition government for a time.

rapidity of improvement which characterized the fiscal situation since 1922 could hardly have occurred but for rigorous and skillful management of the nation's finances, backed up by an administration which had no cause to consider compromise. The champions of the pre-Fascist administrations are quite right in saying that the worst of the budgetary crisis had passed before the Fascist administration began; but it is unlikely that the reorganization of departments, the introduction of large-scale economies, the rapid liquidation of outstanding *residui* and the many other steps which were taken by the new administration could have been carried through in many years except by an authoritative régime animated by extreme zeal.[5]

The most striking example of this zeal and its consequences is the restoration of the railroad system to a basis of self-support, and even of modest surpluses, after allowing for some railroad expansion, electrification, and like expenses. As much as 176 million lire were turned in by the Railroad Administration by way of surplus for 1924-25; while for 1925-26, the surplus seems likely to have been larger. The Fascist Administration seemed possessed, in its initial stages at least, of a veritable spirit of crusade to discipline bureaucracy (and parliamentarism, as

[5] Former finance ministers and other ex-cabinet officers have been claiming that they laid the foundation for the reforms of de'Stefani; see remarks of Paratore, quoted in *Economic Review*, June, 1923, and the book of I. Bonomi, *From Socialism to Fascism*, London, 1924.

well) into a thoroughly tractable and resourceful service to what were idealized as *national interests;* and perhaps nothing less than a spirit of crusade could have quickened the reduction in budget deficits as has been the case since 1922, and forced the very "spirit of government" to learn how to get along with less and less.[6] The vigorous reduction in personnel in every branch of the service, and the suppression of all expenditure not essential to public administration or directly productive of economic reinforcement have continued to mark the policies of the Fascist administration clear into the fiscal year 1926-27.

II. THE GROWTH OF THE PUBLIC DEBT, 1914-1926

The results of a succession of unbalanced budgets during the war period and the years immediately thereafter are strikingly manifested in the growth of the public debt, domestic and foreign. On the other hand, the success of the Italian government since 1922 in effecting a thorough-going fiscal reorganization is shown in the checking of the growth of the debt and in a reduction of the rate of interest on government loans. Attention must first be given to the changes in the amount of the domestic debt

[6] A remark of J. B. Say, made long ago, seems to be quite in point on the resistance of governmental authorities to reduction in budget outlays. "The temporary misfortune of war becomes a lasting misfortune in consequence of resort to war borrowing, for governments cannot cut down their expenditure once they have secured authorization for them." *Cours complet d'économie politique pratique,* Brussels, 1843, p. 543.

from the outbreak of the war until the summer of 1926.

A. The Domestic Debt

The period from 1914 to the end of the fiscal year 1925-26 falls readily into three groups of years:

THE DOMESTIC PUBLIC DEBT, 1914-1926 *
(Figures for June 30; in millions of lire)

Classification	1914	1919	1922	1925	1926
FUNDED DEBT	14,840	34,416	56,600	63,258	63,453
Consolidated	9,922	23,514	44,448		
Redeemable	4,918	5,067	4,920	63,258	63,453
Intermediate	....	5,835	7,232		
FLOATING DEBT	926	25,797	36,043	27,589	27,856
Treasury certificates	380	15,054	25,312	17,589	17,832
Advances from banks	....	8,026	8,049	7,068	6,729
Treasury currency	486	2,267	2,267	2,100	2,100
Accounts current	60	450	415	832	1,195
TOTAL	15,766	60,213	92,643	90,847	91,309

* Based on *Documenti sulla condizione finanziaria ed economica,* December 8, 1923, pp. 222-3, and *Gazzetta ufficiale, Supplemento,* July 24, 1925, and July 29, 1926. The definite figures as to the amounts outstanding of the several divisions of the funded debt are not given in the latter sources in a form comparable with the statement for previous years in the *Documenti.* But it appears that approximately 12,374 million of the intermediate bonds (3 to 9 years) were outstanding on June 30, 1925, and 12,408 millions one year later.

The table of domestic debt will look very different on June 30, 1927, as a result of the consolidation of floating debt effected in November, 1926 (see p. 371) and the currency reform of September (see pp. 197-8).

1914-1919, 1919-1922, and 1922-1926. The first of these periods is to be characterized as one of indiscriminate borrowing either through the issue of

paper currency, the flotation of long-term loans, or the short-time operations required for day-to-day treasury needs. With a view to illuminate the following discussion relative to these periods, there is submitted on p. 88 a tabular statement of the domestic public debt of the Italian government for certain years, the figures for 1914 being repeated here for the sake of convenient comparison.

1. *War borrowing.*—Five loans were issued during what is commonly called the war period, one of them, however, before Italy's entrance into the struggle. The following tabular statement presents the yield of the respective issues both in paper lire and in lire having the purchasing power prevailing before the war. The figures in both columns are in millions.[7]

Date of issue	Paper lire	Pre-war lire
December, 1914	881	933
June, 1915	1,124	878
December, 1915	2,637	1,547
January, 1917	3,700	1,613
January, 1918	5,926	1,632
	14,268	6,603

[7] The reduction to pre-war lire is on the basis of wholesale price indices compiled by the League of Nations' Statistical Service; which explains why the pre-war equivalent of the actual yield of the loan of December, 1914, could appear so much greater than the actual yield. The lira was at a considerable premium in the early winter of 1914-15. See Appendix C, p. 366; but see also, in Appendix D, p. 461, discussion as to the effect of the currency depreciation on the *present* gold value of these loans.

It has not been possible to determine with exactness the yield

Despite this large-scale resort to the distribution of long-term securities among the people of Italy, treasury borrowing from banks steadily grew until by the end of the fiscal year 1918-19, the short-term debt constituted roughly 43 per cent of the total domestic indebtedness.

2. *The transition period, 1919-1922.*—This period is characterized mainly by the steady growth of the national debt through the dangerously rapid increase in floating indebtedness. To be sure the relative proportion of floating to funded debt tended to improve by reason of the issue of the sixth and largest of the national loans in January, 1920, which yielded 18,384 million lire or roughly 3,624 million gold lire.

By the end of the fiscal year 1919-20, therefore, the consolidated debt had risen to more than 52 billions—43 billion lire in the form of perpetual annuities, 5 billions of debt redeemable at the option of the holder, and 4 billions redeemable at fixed dates. The miscellaneous short-term obligations of the government—three months' notes, treasury certificates, current accounts at the Bank of Italy, or the Cassa dei Depositi e Prestiti, and the non-interest-bearing currency issues—had

as distinguished from the nominal amount, of all domestic and foreign borrowing; but in his *Prospettive economiche* for 1925, pp. 381-95, Professor Mortara includes estimates which accord well with the records of receipts and disbursements. According to these figures, some 62 billions of paper lire net were derived from the domestic loans aggregating 80 billions, and from the foreign loans some 27 billions net.

shrunk somewhat in the aggregate because of the conversion operations involved in the sixth national loan. The aggregate floating debt on June 30, 1920, was 22 billion paper lire, but almost immediately it began again to rise, attaining the figures of 31.3 billions at the end of the fiscal year 1920-21, and 36.1 billions on June 30, 1922.

3. *The period of reconstruction, 1922-1926.*— Even before the establishment of a new administration in the early fall of 1922, the crest of the flood of indebtedness seemed to have passed. In any case, the new régime marked its accession to the control of public affairs by a persistent effort to reduce the floating indebtedness.

On June 30, 1923, the floating debt stood at 35.4 billions, and the aggregate internal debt of 95.5 billions. By June 30, 1924, the floating debt had fallen to 32.6 billion lire, and the aggregate internal debt to 93.1 billions. These amounts were still farther reduced in the fiscal year 1924-25, becoming respectively 27.5 and 90.8 billion lire. Finally, at the end of the fiscal year 1925-26, the floating debt amounted to 27.8 billions and the aggregate internal debt to 91.3 billions. New categories of intermediate obligations—bonds for seven, nine, and twenty-five years, long-term reconstruction issues and the like—had been established with considerable success in absorbing large amounts of floating debt, while the huge cash balance in the Treasury

was applied to the liquidation of short-term notes as they came due.[8]

The finance ministry has got rid of a huge mass of unsettled debit balances, reducing some of them to floating debt and cancelling others, and has thus brought down the outstanding volume of internal debt by several billion lire. The floating debt, which in 1919, had constituted roughly 43 per cent of the total domestic debt—in 1920, 30 per cent; 1921, 36 per cent; 1922, 39 per cent; 1923, 37 per cent—had fallen by 1924 to 35, at the end of the fiscal years 1924-25 and 1925-26 to 30 per cent.

The reduction in the cost of borrowing has been the most significant index of progress in the management of the public debt. The rapidity with which the budget was balanced, the avoidance of borrowing, the fiscal measures favorable to accumulation of capital, the exemption from taxation of capital sent from abroad for investment in Italy, and other factors soon restored the prestige of the domestic debt as an investment, and by the end of 1923 several long-term issues actually achieved market prices just short of their par values.[9] It became evident that the government was causing certain issues, notably the 5 per cent consolidated,

[8] See table on p. 78. For reference to consolidation of floating debt in November, 1926, see p. 371.

[9] Average quotations all Italian Stock Exchanges of 3½ and 5 per cent consolidated national loan, 1913-1925.

	1913	1918	1919	1920	1921	1922	1923	1924	1925
3½ per cent consolidated	98.59	80.59	84.02	75.12	72.25	72.99	78.00	83.54	76.33
5 per cent consolidated	——	98.48	90.74	79.31	76.53	80.18	87.70	97.29	94.51

to be brought up on government account, with a view, no doubt, to pave the way for large-scale conversions, within a few years, of short-dated notes into this issue, as well as to facilitate at a later date the conversion of the entire 5 per cent issue into an issue at some lower rate of interest. Once the direction and purpose of the treasury's operations were sensed by the public at large, extensive buying of nearly all issues resulted. This operation is one which the treasury can carry out successfully only if conditions are generally favorable in the money market and in the country as a whole.

The diminution in the outstanding volume of treasury certificates by some four billions of lire in the fiscal year 1924-25 was in reality a remarkable feat for the treasury to carry through, in view of world conditions, and especially Italian conditions, as they were in that year. It resulted in a sharp decline in the cash balances of the treasury—a decline attended by a certain amount of risk, to be sure; but this was more than balanced by the marked reduction in the cost of current financing to the Italian treasury. The average rate of the treasury borrowing was slowly pressed down. For the fiscal year 1923-24, it amounted to 4.80 per cent, but in June, 1925, as a consequence of the currency and exchange disturbances, it rose to 6 per cent, making the average for 1924-25, 5.10 per cent. The rate for the fiscal year 1925-26 seems to have averaged somewhere between 5.25 and 5.30

per cent. A reduction might have been possible if the government had not renewed some of its short-term borrowing so as to have funds to apply to public works and irrigation activities intended to make the soil of the peninsula, slowly drying out, more capable of supporting the nation. The great aqueduct through the province of Apulia, for example, was vigorously pushed to completion by the Fascist administration. A public work of this kind, with its total length of fully 1,500 miles (including branches) no doubt justified the delay in debt consolidation inasmuch as upwards of two million people thereby secure a dependable and plentiful supply of water, and become better able to contribute to the future taxation program of the State.

B. The Foreign Debt

We shall turn now to the foreign borrowing of Italy.[10] From the beginning of the war, Italy borrowed in Great Britain; and as soon as the United States entered the war, Italian borrowing from the United States treasury began. The purposes for which this borrowing took place hardly call for discussion, but we have reproduced in Appendix C an official list of the commodities purchased on Italy's account in or through Great Britain with the money loaned by the British government, and those purchased in the United States with the proceeds of the credits established by the treasury at Washing-

[10] See Appendix C, Section IV, p. 371.

ton. From 1915 until 1920, a capital sum of about £377 millions was credited to Italy by Great Britain, for which Italy gave special bonds to the Bank of England, the interest compounding automatically at a rate governed, in the main, by the cost of money at the Bank of England. The interest amounted to some £216 millions by July, 1925, while by the time the British Italian funding agreement was signed in January, 1926, the total of the principal and interest had risen to £610 millions.[11] The total principal credited to Italy by the United States and actually used by the former power amounted to $1,648 millions. The credits were extended substantially on the understanding that Italy should pay the same rate of interest as the Government of the United States paid to its own citizens on the securities sold to them against the loans to Italy. This meant, by the end of the war, a rate of 5 per cent; but the question of interest remained unsettled until the negotiations of 1925.

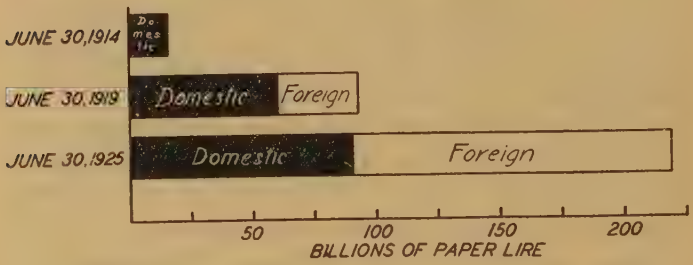
The equivalent in gold lire of the aggregate capital sum of Italy's foreign debt as it stood in the middle of 1925, would have been something between 25 and 26 billions, representing, in paper lire upwards of 120 or 125 billions—a sum materially in excess of the domestic debt.[12]

[11] Regarding the funding of Italy's debts to Great Britain and the United States, see Chapter IX, and Appendix C, p. 380.

[12] On the assumption, of course, that no other foreign debt than that to Great Britain and the United States should be finally recognized. There is an unsettled issue between France and

The latter then amounted to 91 billions in paper lire, equal, at the rate of exchange prevailing in 1925, to just over 18 billions in gold. The domestic and foreign debt combined thus equalled more than 200 billion paper lire in the summer of 1925. In the chart on this page are shown the changes in the public debt from 1914 to 1925.

GROWTH OF THE PUBLIC DEBT, 1914-1925



These figures and the chart itself are, however, somewhat misleading because of the changing value of the currency during the period in question. The significance of the increase in public debt will be more accurately revealed by comparing the relation of the public debt to the aggregate national wealth in 1914 with the same relation 11 years later; in

Italy, covering maintenance and equipment of Italian troops in Northern France. In the *Inventaire de la situation financière*, published by the Ministry of Finance at Paris, in 1924, p. 175, the net Italian debit is set down as 350 million francs; and the same item appears at page 142 of the memorandum entitled, *France and Her Capacity to Pay*, submitted by the French Ambassador to the United States World War Debt Funding Commission in March, 1926.

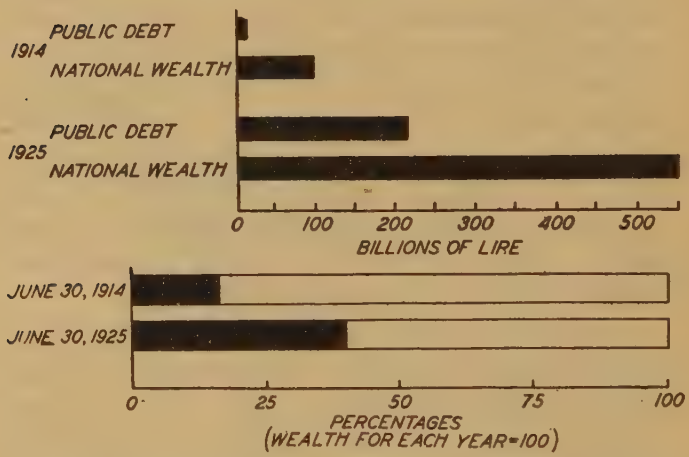
this way the factor of price change is eliminated. The first of the charts on page 98 reveals the growth of national wealth and public debt respectively from 1914 to 1925, the latest year for which any estimate of national wealth is available. For reasons which are indicated in the closing section of Appendix D, we have elected to use 111 billion lire as the estimate of the aggregate private wealth in the last year or so before the war, and from 500 to 600 billion paper lire of 1925 as the aggregate private wealth in the middle of that year.[13] The basic figures are in paper lire, it must be borne in mind. This difficulty is obviated when, in the second chart, the percentages of aggregate national wealth represented by public debt in the two years, 1914 and 1925, are placed side by side.

It will be seen that in 1914 the public debt of Italy was equal to about 16 per cent of the total national wealth, whereas in 1925 it had increased to 35 or 40 per cent. But these percentages do not reveal what was after all the paramount change in the relative significance of the public debt among the major factors affecting the country's economic

[13] Adopting 5.00 as the annual average value in paper lire of the gold lire in 1925, the aggregate of private wealth in the latter year would thus appear to range from 100 to 120 billion gold lire. Taking into consideration the difference in pre-war and post-war gold, in terms of purchasing power—gold prices having increased roughly 50 per cent in the interim—one realizes that there has been an actual decline of the aggregate of national wealth in the 11 years 1914 to 1925. This shrinkage is accentuated by the fact that the population of Italy has been increasing at a rate in excess of one per cent per annum since 1920.

life. In 1914, the public debt was owed almost exclusively to Italian citizens and was all payable, as to principal and interest, in currency selected by the national legislature; in 1925, on the other hand,

COMPARISON AND PERCENTAGE RELATION OF PUBLIC DEBT AND AGGREGATE NATIONAL WEALTH, 1914 AND 1925



considerably more than half the total public debt, no matter how computed, was owed to foreign governments and payable in the currencies of the creditors.

III. TAXATION IN PROPORTION TO AGGREGATE NATIONAL INCOME

The annual growth in Italian tax revenues from 1914 to 1925 will be found in Table V of Appen-

dix B. During the war Italy resorted more extensively than even France to borrowing as a means of raising revenue. This was inevitable in view of the unusually large proportion of the national aggregate of private wealth in land and related values. Nevertheless, Italy raised a large amount of money by taxation. The fiscal administrators showed great ingenuity in finding new objects of taxation; taxes were established on capital profits, and on every variety of transaction, amusement, privilege, or perquisite.[14]

At the end of the war a movement developed for the taxation of capital on a vast scale through the imposition of a capital levy. The Liberal-Socialist coalition in power in the legislature favored this project, and at length a law, identified with the name of the then Minister of Finance, Soleri, was enacted creating such a tax, although as worked out, it has amounted to but little more than an ordinary tax on wealth for 30 years. This law affected only fortunes in excess of 50,000 lire, and its rates ranged from 4.5 per cent up to 50 per cent on declared assessments based on property holdings of January 1, 1920.[15] The chief consequence of the experiment was to stimulate the exportation of capital, and to sharpen the determination of the propertied classes

[14] For a detailed review of this subject, see Appendix D, Section II, p. 428.

[15] The maximum rate of 50 per cent was established for fortunes in excess of 100 million lire. The provisions of the law are discussed in detail in Appendix B, pp. 429-30.

in the country to have done with the succession of coalitions shifting the administrative control of the country from one to the other and disclaiming responsibility for chaotic financial conditions.

The Fascist Administration effected thoroughgoing taxation reforms. The new Minister of Finance at once declared that he favored lower rates, stricter methods of assessment and impartial application of the tax laws to all lawfully within their scope. The progress of the Ministry of Finance, thus given a free hand for non-political and efficient effectuation of the law, was quite remarkable in catching up with tax collections and in making the law reach those whom it concerned. Many thousands who had ignored requirements as to tax schedules, and the like, were sharply brought to book; older assessments were raked over and a cumbersome mass of disputed payments was expedited through the tribunals.

More important still were the broad policies laid down by the administration in the whole field of taxation. In the eyes of those responsible for public policy, the flight of capital had to be discouraged and, if possible, the investment of foreign capital in Italy was to be stimulated. Therefore, they abolished all inheritance taxes except on estates passing beyond the third degree of kinship. Capital from abroad was exempted from various kinds of taxation for a term of years. The task of reorganizing the whole tax structure was next undertaken. It

was completed in the late fall of 1925, when the reorganization of local taxation was taken in hand As it stood in the winter of 1925-26, the taxation system of Italy as a whole would compare satisfactorily with any of the systems of large industrial countries, so far as logical basis and orderly development are concerned; and from the administrative point of view, Italy now stands well up in the list of countries whose fiscal services are not only efficient but reasonably up to date in their tasks.

In proportion to income, Italy's taxes are heavier than those of any other important country. This conclusion rests upon an investigation of the proportion of the aggregate national income absorbed in taxation, national and local. Moreover, the proportion absorbed is considerably greater in recent years than it was before the war.

The figures below (in millions of lire) show the situation in 1914 and again in 1925:

Year	Aggregate national income	Aggregate taxation, national and local	Taxation as percentage of income
1914	20,000	2,600	13
1925	100,000	20,600	20

If we take into consideration the necessity of an allowance covering the subsistence costs per capita of the population, the burden of taxation is seen to be decidedly onerous. The reason for making this

deduction is indicated in Appendix D. Even with the most conservative allowance that is customarily made in the case of Italy, a very small margin of income available for taxation and other purposes will remain. On the basis of an aggregate national income per capita of approximately 2500 lire (paper lire of the average purchasing power in 1925), an allowance of approximately 1200 lire, as the minimum for subsistence, is thought to be reasonable. This deduction leaves approximately 1300 lire from which tax payments and other disbursements might be made. The gross taxation per capita, national and local, of about 500 lire would represent from 38 to 40 per cent of this remainder.

The significance of the calculation just made is perhaps more vividly brought out by expressing the relations in terms of dollars, on the basis of exchange averages for 1925. First, there must be deducted from the aggregate income per capita of $100 the amounts needed to cover the mere minimum of subsistence ($48), and national and local taxes ($20). The balance, say $32, would be all that would remain to meet the expenditure incidental to health and welfare, education, diversion, and the acquisition of goods which represent either additional comfort or greater convenience. Of course, this margin available for other things than bare existence and the exactions of public authority has, as a practical matter, tended to be even smaller on the average than the 1925 equivalent of 32 dol-

lars in view of the fact that the Italian people have unflinchingly managed to save a modicum of their meager national income per capita.

Even with much more substantial allowances per capita for the minimum of subsistence, it is probable that no other important country would show so great a percentage of income absorbed in taxation.

Thus, Italy's appearance of vigor and prosperity cannot cover the fact that from an economic point of view her people are poorer, taken on an average, than they were before the war. Moreover, grave as the implications of Italy's fiscal burdens in 1925 must have seemed, the Italian people, in that year, had not yet begun to carry the initial load of the liquidation of foreign public debt, to say nothing of its full weight in after years.

The seriousness of the situation was not lost upon the Italian government. The heavy burden of taxation already borne, the increase in taxation necessary in consequence of the program of foreign debt repayment and the exchange and currency difficulties that had prevailed for more than a year, were not only the obvious justification for the thoroughgoing measures taken by President Mussolini at the beginning of the fiscal year 1926-27, but also the preliminary steps to the sweeping currency restoration program announced two months later. The administration called upon the country, early in July, 1926, to adjust itself to a restriction of the hours during which food and drink might be sold.

a requirement that all wheat products be mixed with 15 per cent of other cereals, a prohibition of the construction of new houses except for workmen, and finally, to the introduction of the nine-hour working day in place of that of eight hours—ostensibly at the option of either employer or workers, but in reality as an obligatory measure.

In the light of the considerations submitted in this chapter, the drastic nature of the measures just outlined need scarcely cause any surprise. The question to which they might have given rise was not so much "Is such a program necessary?" as it was, "Will the government be able to stop at this point?"

CHAPTER V

THE STATE OF AGRICULTURE

Italy is predominantly an agricultural country. Even to-day, after her industries have been developed on a considerable scale for two decades, more than half the adult working population is still engaged in agriculture. While the Italian people are thus able to produce the major portion of what they eat, they do so under unfavorable conditions and with a tremendous outlay of effort. If a bit of soil is capable of cultivation at all—even at an exceedingly low return to the labor and capital invested—the Italian farmer does what he can to get a living out of it.

Disregard of the law of diminishing returns has characterized the actual practice of Italian farmers for centuries. They have kept stolidly and persistently at their task without much new equipment and with natural resources of a seriously limited sort, but with numbers of population mounting steadily. In spite of these difficulties, it is conceivable that Italy's own "agricultural plant" would have sufficed to furnish her breadstuff as well as other food requirements but for the coming into

play of two great factors, both of which operated to expand the "wants" of the average individual and, among others, a greater demand on his part for cereals. Those two factors were, (1), the industrialization of the country with its transformation of small cities into enormous metropolitan areas, and (2), the emigration of millions to other countries. The nature of these two factors and their influence on standards of living will occupy the next two chapters. Our task here is to analyze the state of Italian agriculture as it is, particularly in the light of the developments of the last decade.

I. THE CHARACTER AND BACKGROUND OF ITALIAN AGRICULTURE[1]

Italy is a land of varied agricultural production. "In the Alpine districts of Lombardy, Venetia, and Piedmont, stock-breeding and forestry industries are pursued on lines not unlike those of Switzerland; in the irrigated valley of the Po, the farming is that of the most progressive countries of Northern Europe; in the districts of Polesine and Ferrara in the Venetian provinces, where land reclamation and

[1] The sources for this discussion are mainly as follows: (a) *The Agricultural Survey of Europe: Italy,* prepared for the Bureau of Agricultural Economics of the Department of Agriculture of the United States by Asher Hobson, with collaboration of O. R. Agresti and P. A. McDonnell and edited by Louis G. Michael, Washington, 1925, cited hereinafter as the *Survey;* (b) the memorandum on Italy's present economic status prepared by Professor Corrado Gini and reproduced as Appendix G in this volume; and (c) Professor Arrigo Serpieri, *La politica agraria in Italia,* Piacenza, 1925.

drainage projects have been developed extensively, farming is similar to that carried on in the rich pasture districts of Holland. The vineyards of Piedmont are comparable with those of France; those of Latium, Apulia, and Sicily with Spanish vineyards. The highly diversified farms of Tuscany, where wheat is grown between rows of vines festooned from branch to branch of the willow trees which act as their props, with fruit trees scattered about the fields, and olive groves utilizing the otherwise barren hillsides, are characteristically Italian. On the other hand, the large wheat farms of the Apulian tableland, with their industrialized agriculture, exhibit a form of farming similar to that prevailing in Eastern Europe. Rye and oats are grown in the North. Rice is a staple crop in Lombardy; mulberry leaves and the breeding of silkworms are a source of wealth to the farmers of the Northeast; chestnuts are grown on an extensive scale in the Tuscan Apennines; citrus fruits, almonds, olives, sumach and, on a small scale, cotton, are staple crops in Sicily. Wheat and the vine are common throughout the peninsula." [2] The table on p. 108 indicates the proportions of the country's area devoted to various types of cultivation.

It would not be possible to present here a detailed account of Italian agriculture in its technological aspects or its economic organization. It may be suggested, however, that the historic background

[2] *Survey*, p. 8.

of the picture is one quite different from that which we find in the United States, where the possibilities of abundant and highly efficient production have

DISTRIBUTION OF ITALY'S LAND AREA *

Types of land	Hectares	Percentage
Seed lands:		
Cereals	7,109,300	23.0
Temporary grass and other forage lands	2,135,300	6.9
Other arable and fallow	4,065,800	13.1
Meadows and permanent pastures	6,798,500	21.9
Horticulture	1,492,700	4.8
Forests (including chestnuts)	5,583,200	18.0
Productive non-cultivated lands	1,251,000	4.0
Total agrarian and forest lands	28,435,800	91.7
Unproductive area	2,562,600	8.3
	30,998,400	100.0

* The total land area of Italy consists of 119,688 square miles, equal to 76,597,157 acres, or 30,998,400 hectares; this calculation includes the total land area of the peninsula, the islands, and the Province of Zara. The table is based on recent computations and appears in the *Report of the Commercial, Industrial, and Economic Situation in Italy,* published by the Department of Overseas Trade, London, 1926, p. 63. This report, like those which had preceded from the same source since 1920, is a convenient and trustworthy summary in English of current economic developments in Italy. There is, of course, considerable difference of opinion as to the proportion of the country's area which is definitely incapable of being rendered productive. The productive area is roughly equivalent to that of the state of Illinois.

been based mainly upon extraordinarily rich natural resources, but also upon a high standard of agricultural education and aggressive scientific leadership on the part of various government agencies. We may quote the words of an Italian [3] which show

[3] Professor Serpieri, *La politica agraria in Italia,* pp. 10-12, quoting from Volpi, *L'ultimo cinquantennio,* Rome, 1924.

vividly the contrasting situation in Italy, not alone as to natural resources, but also as to the general economic and political situation in the last third of the nineteenth century.

It was a country naturally rich here and there, but generally poor, and even very poor, with 60,000 square kilometers of plains, 100,000 of mountains, and another 100,000 of hillside. Many regions were to be characterized as stony; the coasts were half deserted and malarial in places. The ruinous deforestation of the country was already far advanced and rapidly becoming more pronounced according as the construction of roads increased the demand for timber. Much land—in fact, too much—was not uncultivated, but badly cultivated, and yielded little by reason of technical ignorance, the slight productivity of the soil, and scarcity of capital. These circumstances were emphasized after the unification of the country, when the hunger for land, the increased value of production, and the enormous areas thrown on the market when the property of the religious orders was confiscated by the government, stimulated more proprietors and peasants than ever to cut down the forests, to break up hilly pasture lands, to acquire land, and to dissipate the slight capital available in the country, emphasizing, in a word, the system of agricultural spoliation which has so long predominated in our country, and which is still to-day the source of deep regret. Prices rose in consequence of this situation, but there was no agricultural progress, because, too, of the obstacles raised by other circumstances, such as agricultural pests and widespread brigandage in the South. Only towards the decade between the 80's and the 90's, when Stefano Jacini, while preparing the final report of the Agricultural Investigation, was he able to note the first attempts at transformation and progress.

. . . It was a country with the weakest possible sort

of economic vertebral structure, a country with stunted forms of productive activity and most unwholesome conditions in public finance. There was little familiarity, as a rule, with the idea of asking anything of the government; and still less was obtained than was asked. The taxation system was of the most rudimentary sort, the revenues were slender, and the majority of the expenditures were of the so-called unproductive variety, on the army, navy, and public debt. There were sharp differences in the economic and social equilibrium of the different regions, all of which looked back (and still look back) upon a history and a geography extremely varied, intermittent, filled with accidents and interruptions. There was but the weakest attempt at the maintenance of well-organized, coherent and homogeneous social classes; what was evident was the squalor of the artisan class, the diffidence and unmanageableness of the illiterate peasantry, . . . the tenacious attachment of the aristocracy to the past.

This picture of Italy from about 1870 to 1900 is perhaps over gloomy. But certainly agriculture appeared to observers in those years to be steadily declining in every respect, and after the sharp depression in agricultural prices of the eighties,[4] and the launching of a definitely protective program for industry,[5] the prospects of agriculture as compared with those of manufacturing industries was most discouraging. The morale of those who lived by agriculture was gravely shaken.

Nor could agricultural progress really show itself

[4] See Nourse, E. G., *American Agriculture and the European Market* (Investigations in Agricultural Economics, Institute of Economics, Washington), 1924, Ch. I.

[5] See Appendix E, p. 466.

until a number of factors had begun to have effect. Emigration brought some relief; and its indirect fruit in the form of substantial remittances contributed in part to the improvement of standards of living, and in part to the break-up of large estates. The industrialization of the Northern cities resulted, in the course of time, in an increased demand for food supplies, and occasionally gave rise to brief spurts of speculative activity. The development of facilities for communication slowly broke down the barrier to the creation of more than parochial markets. Feeble attempts at the investment of capital for the agricultural betterment of the country were made by the government, but more often than not had worse effects, by reason of the increase in taxes which borrowing necessitated, than if the situation had been left severely alone; while such policies as the wholesale throwing of monastic lands on the market for what they would bring had the most serious economic consequences. From time to time, the attempt was made to give tariff protection to agriculture; and few of the lively tariff controversies of Italy aroused such bitter feeling as the tariff on wheat flour and sugar.[6] But those engaged in agriculture developed an ineradicable conviction that they were gravely prejudiced by the tariff policy of the country, and that in every commercial treaty negotiation their interests were regarded as quite secondary. This impression gained the greater

[6] See Appendix E, p. 470.

force according as it came generally to be believed that industrial profits were mounting, and as the farmer measured off his own endless labor on stubborn soil against the regulated hours of the factory worker paid a wage which seemed independent of weather hazards at least. In order to improve similarly the production situation in agriculture by the use of agricultural machinery and new methods demanded an outlay in acquisition and upkeep quite out of his reach. Even though co-operative ownership was to some extent developed, progress along these lines was slow and difficult.

The war, of course, stimulated agricultural production mightily. The necessity of getting food at all costs increased production both through the augmentation of the area under cultivation and through the improvement of methods of production. For several years there was a wave of devotion to the idea of national self-sufficiency. "The indestructible reality is domestic production," wrote one economist.[7] This state of mind prevailed after the war; although theories about the internationalization of raw material supplies were also popular and, had they been realized, might have speedily put an end to the revived movement for tariff protection for agriculture. They were not realized, however, and instead, there came another strong reaction in Italy towards protection. The tariff

[7] Dr. Mario Alberti, *l'Economia del mondo prima durante e dopo la guerra europea,* Rome, 1915.

enacted in 1921 was so manifestly favorable to industrial protection that the régime then in power began to lose prestige rapidly among the agricultural elements in the country, beset as they were by currency and price difficulties, and convinced of the undue bias on the part of the administration in favor of manufacturing industries.

The real test, however, of the validity of the contention that agriculture could be vastly improved simultaneously with the expansion of industry and the raising of living standards—the contention, in a word, that all three could be pulled up at the same time—was not destined to come under the Liberal or Liberal-Socialist administration of the war period and the years just following. This was left to the Fascist Administration which at the very outset of its career declared that agriculture had been neglected, and that it would no longer be sacrificed. The Fascist leaders, it must be admitted, have appeared—even in the embryonic stages of their political theory—to take agriculture very seriously, and to regard it as did the Oriental sage who once wrote that, "The prosperity of the nation is like a tree; agriculture is its root, industry and commerce are its branches and its leaves; if the root is impaired, the leaves fall, the branches break off, and the tree dies." [8]

[8] Quoted by Jules Méline, in *Le retour à la terre*, Paris, 1905, p. 313.

II. AGRICULTURE IN THE FASCIST STATE

The essence of Fascist agricultural policy has been the stimulation and standardization of production. Agricultural reform meant more to the new dispensation than the improvement of agrarian conditions and the stabilization of prices. It involved the reconstruction of the whole national economy in such fashion that agriculture, in place of being an invertebrate and unorganized calling, should become a carefully balanced industry and an integral part of the economic system employing only the most advanced methods, and counting upon the fullest support of all other branches of industry.[9]

The task was viewed not as one of finding different methods of tenure, but as one of improving methods of production and distribution, and of encouraging, through credit extension, the development of essential types of agricultural products. In emphasizing

[9] The program was that of Professor Serpieri, who acted as head of the national agricultural service for a year, 1923-24; it was known as the program of *bonifica integrale* in place of *bonifica agraria* (integral improvement rather than narrowly agricultural improvement). Professor Serpieri has outlined his policies in *La politica agraria del governo nazionale,* Rome, 1924, and in *La politica agraria in Italia,* Piacenza, 1925, and they have been analyzed by Professor Lorenzoni in the *International Review of Agricultural Statistics,* January-March, 1925, pp. 89 ff. For discussions of pre-war policy, besides the works of Valenti, reference may be made to the books of Paul Roux, *La question agraire en Italie,* Paris, 1910, and A. Sartorius von Waltershausen, *Die Sizilianische Agrarverfassung,* Leipzig, 1913, which are well worth examination still. Chapters in the work of Professor Gino Arias, *La questione meridionale,* 2 vols., Bologna, 1921, and Professor Giuseppe Prato, *Il Piemonte e gli effetti della guerra,* Bari, 1925, throw light on various agricultural problems.

the technique of production and of better utilization of the land generally, the government was following the view of Valenti, who had urged the reduction in the area devoted to wheat from 4.7 million hectares to 3.5 millions, declaring that with improved methods of production the yield would be increased one-third. Valenti had also recommended the increase of livestock holdings by one-third, and the expansion of such typical production as would stimulate agricultural industries. But all this called for rather generous credit facilities, in the main, of course, on the basis of public guarantee. At the end of 1923, measures were taken calculated to provide the required funds, and to create the necessary co-operation between agricultural interests and the government agencies for public works.[10]

The extension and reinforcement of the co-operative movement naturally has come within the scope of the official program.[11] Two great federations, one

[10] The two principal laws are, (1) that of December 30, 1923, establishing the area (*comprensorio*) for the improvement of which credit was to be provided, contractors being grouped in responsible associations, and (2) that of July, 1924, providing elaborate regulations for all credit operations. The subject of agricultural credit in Italy is discussed in a pamphlet, *Il credito agrario in Italia,* Milan, 1924, published by the Banca Nazionale dell'Agricoltura, which was founded in 1921 by a number of agricultural consortia, popular banks and others.

[11] The Italian co-operatives are among the oldest and most successful. Accounts of them are given in *Co-operation in Foreign Countries,* published by the Federal Trade Commission at Washington, 1925; Ruini, *Il Fatto cooperativo in Italia,* Bologna, 1923; Dr. Michael Hainisch, *Die Landflucht,* Vienna, 1925; F. Rovelli, *Die italienische Agrarverfassung,* Karlsruhe, 1908; W. D. Preyer, *Die Arbeits-und Pachtgenossenschaften Italiens,* Jena, 1913; and the study of Serpieri cited in note 1 of this chapter.

with over 2,000 local co-operative banks, the other with 3,540 constituent banks,[12] carry far more of the credit burden than the government itself would ever be called upon to assume; and there are auxiliary institutions.[13] The government, however, has undertaken something in the special field of agricultural credit to veterans—especially wounded veterans.[14]

The most important steps in behalf of agricultural self-sufficiency were taken after the spring of 1925. They were, first, the "battle of the grain"—namely, the attempt to stimulate home production of cereals to the point where substantial imports would seem to be necessary—and secondly, the creation of really national agricultural credit establishments. The "battle of the grain" became a test of national loyalty.[15]

See also article of F. Luzzatto digested in *Economic Review,* London, November 14, 1924, p. 420.

[12] The latter is the *Federazione Nazionale delle casse rurali italiane* founded by Senator Wollemborg in 1887, the annual *Relazione* of which for 1924 covers the activities of this federation down to 1922. The smaller federation is a consolidation of 54 local federations, and is the *Federazione italiana delle casse rurali.* This body publishes an occasional *Situazione economica.* The review *Cooperazione popolare,* Milan, is devoted to the co-operative movement.

[13] Like the *Instituti popolari cooperativi di credito per azioni,* with 829 member banks (having 1,219 branches in all).

[14] Decrees organized the National Veterans' Assistance (December 31, 1923), and the Agricultural Credit Fund for Wounded Veterans (June 19, 1924).

[15] It is described in the *Survey* mentioned on p. 106, note 1; articles in *Economic Review,* October 16, 1925, p. 336; *Wirtschaftsdienst,* December 19, 1925, p. 1913; and the *International Review of Agricultural Statistics,* January-March, 1926, pp. 70 ff. (with valuable bibliography).

The tariff duty on wheat of 7.5 gold lire per quintal was reimposed, and every other means resorted to whereby cereal production could be increased. Lecturers and demonstrators were increased from 300 to 700 in number; and a grain commission busied itself with the development and distribution of a national supply of fertilizers. Whereas, 12.5 million quintals of phosphatic fertilizers were used in 1924-25, it was estimated that in 1925-26 no less than 17 million quintals would be used.[16] Presumably, too, means were sought to furnish poor farmers with selected seed free of charge, although this would naturally not constitute the main interest in the grain commission.[17] So far as the harvests of 1925 and 1926 show,[18] the "battle of the grain" seems to have been so far a fair success; and with the larger use of potatoes in place of cereals, as recommended by the President of the Council of Ministers, and the 15 per cent mixture of other cereals with all wheaten products, there is a prospect that the country's need for imported cereals can at least be prevented from expanding.

[16] The extended use of fertilizers may be surely counted upon from now on, according to the leading company manufacturing such products, which up to the end of 1924 had established 1,250 demonstration stations of its own; see annual reports of the Società Generale per l'Industria Mineraria ed Agricola published in various journals.

[17] Critics have alleged that if more money were spent this way, and less on committees and conferences, still better results would have been achieved than was the case. See *British Department of Overseas Trade Report,* mentioned in note on p. 108.

[18] See page 120 for 1925; as to 1926, press despatches report provisional estimates nearly as high as for 1925.

The government also undertook to create a single agricultural credit bank, analogous to those established in other countries, with a large initial capital and some arrangement for expansion. Then, in the spring of 1926, the two Southern banks of issue, at Naples and Palermo surrendered this privilege to the Bank of Italy,[19] and it was understood that they would devote their resources to agricultural credit requirements. Apparently, therefore, everything within reason was undertaken on behalf of the employment of public credit for agricultural long and short term and intermediate loans.

The Fascist administration seems squarely based upon an acceptance of the pre-eminent rôle of agriculture. The President of the Council of Ministers has frequently uttered sentiments to the effect that "we must make Fascism a phenomenon primarily rural in character." [20] Consequently, it is natural that public policy, under this administration, should have been directed to promote the diffusion of knowledge as to better methods, and to encourage conditions that will mean greater average yields.

[19] See page 183. But the government seems not to have fallen into the error of those who "cry out that agriculture needs credit when they really should say that it needs capital—something quite different:"—a remark of Valenti, quoted by Serpieri, p. 163.

[20] Serpieri, p. 68. No small impetus in this direction was given by the emphatic utterances of the late economist Vilfredo Pareto, such as his declaration in 1923 that: "Farmers are the chief element of stability in the nation, and a government has little choice between resting squarely upon them or upon 'revolutionary' elements: suspended in the air between them, it cannot survive."

III. THE FOOD SUPPLY PROBLEM

The major problem confronting the Italian people, perhaps, is that of devising measures that will prevent their means of subsistence from "definitely diminishing"—to use the expression of Dr. Zugaro.[21] This problem is grave, so much so that apparently whatever reasonable and feasible measures were suggested, the Fascist administration would not hesitate to try them. The author of the *Survey* to which reference has already been made, summed up the Italian problem as "that of maintaining a balance between agriculture and other industries in relation to the rapidly expanding population." This problem is serious; yet it is no more so, and perhaps a trifle less so, in 1926, than it was at the end of the war.

The area devoted to cereals, Italy's principal food product, is to-day a little below the pre-war figure. Although Italy has a wide variety of agricultural production, made possible by the great range in climatic conditions, practically half of the

[21] Dr. Fulvio Zugaro, "La produzione del suolo italiano," in *Annali di Economia*, Milano 1, 1924, pp. 265-300; quotation from p. 283. "We may fairly come to the . . . conclusion that the production of the soil of Italy is evidently incapable of adequately keeping step with the growth of the population. . . . We are not yet in a position to declare that the means of subsistence . . . are definitely diminishing. It may be the fact that the individual share of well-being of each individual may be maintained undiminished or even increased, through the aggregate labor applied to the production of our own soil, to raw materials from abroad, to partly fabricated goods from abroad, or to the rendering of services to foreigners either in or outside of Italy."

cultivable land is used for the production of cereals. The table below shows the area devoted to cereals before the war and for the period 1921-1925, within the present boundaries.

AREA DEVOTED TO CEREALS *
(In thousands of acres)

Crop	Average 1909–13	1921	1922	1923	1924	1925
BREAD CEREALS:	12,139	12,204	11,809	11,869	11,589	11,977
Wheat	11,793	11,877	11,489	11,554	11,280	11,673
Rye	346	327	320	315	309	304
OTHER CEREALS:	6,013	5,527	5,601	5,582	5,582	5,514
Barley	647	585	576	569	571	576
Oats	1,276	1,225	1,214	1,223	1,181	1,202
Corn	4,090	3,717	3,811	3,790	3,830	3,736
ALL CEREALS ...	18,152	17,731	17,410	17,451	17,171	17,491

* *Survey*, p. 19.

Only a quarter of the land devoted to cereals is low land; the bulk of it is hillside and mountain slope. Historical reasons are largely responsible for this unusual situation. The conditions existing in antiquity and in the middle ages made other countries the granaries of Italy, whose own best soil was given over to the extensive cultivation of other food stuffs, or to great pastoral estates. The peasant farmer class found what sustenance it could from lands of less value, and over many generations there was developed the custom that each farmer should raise as much of his family's food from his own land

as was possible. Hence the production of grain on lands that in other countries would be used chiefly for livestock grazing. Hence, also, the relatively low average yields of grain for the country as a whole.[22]

The area devoted to sugar beets and, less markedly, potatoes, has increased since the war. The following figures show the pre-war acreage and that of recent years.

AREA DEVOTED TO POTATOES AND SUGAR BEETS *

(In thousands of acres)

Crop	Average 1909–13	1921	1922	1923	1924	1925
Potatoes	759	763	861	860	865	844
Sugar beets ...	130	159	203	223	306	141

* *Survey,* p. 19; and *Foreign Crops and Markets,* 1926. The sugar beet acreage for 1926 was provisionally estimated at 180,000 acres in October, 1926.

The area devoted exclusively to potatoes has been less, both before and since the war, than is the case in France, where the acreage exceeded 3.8 million in 1923, and 3.5 million in 1924. But although Italian production of potatoes has been small if one considers the country as a whole, it is a fact that in

[22] The average wheat yield for the whole country ranged in 1924-25 from 20 to 21 bushels per acre. But, observed Valenti, the average yield means little. "Comparison with the average of 29.7 bushels per acre for Germany should be made with the average of 23.8 bushels per acre obtained in the valley of the Po, where wheat is cultivated on an area larger than is under that crop in the United Kingdom and Belgium taken together; the average of 20.8 bushels yield in the Apulian plains and hills with the average of 18 bushels per acre of Hungary." "L'Italia agricola dal 1861 al 1911," in *Cinquanti anni di storia italiana,* Vol. II, Milan, 1911, quoted in *Survey,* p. 14.

northern Italy there has been a traditional fondness for potatoes (in soups and other combinations). It remains to be seen whether President Mussolini's exhortation to his countrymen to eat more potatoes

PRE-WAR AND POST-WAR AGRICULTURAL PRODUCTION *

(In millions of quintals or hectoliters. Quintal = 220 pounds; hectoliter = 26.42 gallons)

Crop	Unit	Annual average 1910–14	Annual average 1921–25
Wheat	Quintals	48.8	53.9
Rye	"	1.4	1.5
Barley	"	2.0	2.2
Oats	"	4.9	5.5
Rice	"	4.9	5.3
Corn	"	25.8	23.7
Potatoes	"	18.4	18.1
Seed beans	"	4.4	2.9 [a]
Other beans	"	3.0	1.6 [a]
Sugar beets	"	18.2	25.8 [b]
Citrus fruit	"	7.3	6.4 [a]
Other fruits	"	...	7.6 [a]
Chestnuts	"	5.9	5.2 [a]
Grapes	"	65.3	69.7 [a]
Wine	Hectoliters	42.3	42.0
Oil	"	1.7	2.0
Forage (hay)	Quintals	240.3	...

* Based on the *Yearbook* of the International Institute of Agriculture.

[a] Average for three years.

[b] Average for four years.

and less wheat will bring about a diminution in the importation of the latter, or an expansion in potato cultivation and consumption.

Owing to two remarkable harvests (1923 and 1925), recent agricultural output has averaged considerably above pre-war yield. This is shown in the

table on p. 122 wherein are set side by side the annual average for the five years ending with 1914 and that of the five years ending with 1925.

ANNUAL PRODUCTION OF IMPORTANT CROPS

Crop	Annual average 1909–13	1920	1921	1922	1923	1924	1925
Wheat	49.9	38.7	52.8	44.0	61.2	46.3	65.5
Rye	1.4	1.3	1.7	1.4	1.6	1.6	1.7
Rice	4.8	4.5	4.7	4.6	5.2	5.9	6.2
Corn	25.5	23.1	23.5	19.5	22.7	26.8	27.0
Barley	2.2	1.4	2.4	1.8	2.3	1.9	2.8
Oats	5.4	3.6	5.6	4.4	5.8	4.8	6.8
Potatoes	16.5	16.1	18.0	14.6	18.0	19.6	22.0
Wine[a]	47.5	43.5	33.1	35.6	53.9	44.7	43.0
Olive oil[a]	1.8	2.1	1.6	2.8	1.9	2.3	1.6

[a] In millions of hectoliters; the other products in millions of quintals. Preliminary figures for 1926 were reported in the *Gazzetta ufficiale, Supplemento* 193, p. 39, in millions of quintals as follows: Wheat, 55.8; rye, 1.7; barley, 2.5; and oats, 5.9.

In view of the great importance of cereals, it is perhaps of interest to show in greater detail their production per annum as well as that of potatoes, wine, and oil; and this appears above.

No great increase in agricultural output is possible. In the first place, the acreage devoted to agricultural production cannot be very greatly expanded. While estimates vary as to the potential acreage that can be put under the plow, it appears that not much more than 50 per cent of the total area is tillable. This may be compared with a cultivated area in 1923 of 46.9 per cent of the total area. According to Valenti, "The existence of vast

stretches of unused lands capable of yielding rich harvests merely by overcoming the ineptitude of their proprietors and applying the necessary labor to them is nothing but the fruit of illusion." [23]

The breaking up of great estates, which has for many years been discussed as the decisive step in the solution of the Italian agricultural problem, presents grave difficulties, and it has been practically laid on the table by the Fascist administration. The division of large estates has always proved an expensive and cumbersome operation, and as recent experience elsewhere in Europe has shown, it does not necessarily result in increased production—at least for some years. As Italian officials now view the problem, little can be accomplished by the mere division of legal ownership until a number of other important changes have first been effected.

Something can be gradually accomplished, however, by means of land reclamation, irrigation, and control of malaria. According to the *Survey* mentioned above, no spectacular results can be expected. "Land reclamation, irrigation, drainage, and malaria control, will bring important additional areas in Italy under cultivation. Relatively speaking, however, the areas thus reclaimed will not be large. In

[23] Quoted by G. Pertile, *La rivoluzione nelle legge dell'emigrazione*, Turin, 1923, p. 137, note 2. Details on the irrigation problem are to be found in the paper "Probleme delle bonifiche nell' Italia meridionale e in Sicilia," *Giornale degli Economisti*, October, 1923, pp. 507 ff., by Vismara, who dwells upon the necessity of spreading out the irrigation policy so as to provide for population congested in the South.

fact, Italy may expect a decrease in tillable land if wages and the standard of life increase to any considerable extent."

There is little prospect of any dependable increase in the yield per unit of area unless and until Italy has the benefit of some epoch-making development in agronomy, such as more effective chemical fertilizers than those in use now, or in agricultural engineering, such as the conquest of land now unworkable or inaccessibly elevated. In any such direction, serious difficulties will be encountered in trying to carry out the task of disseminating the understanding and practice of scientific agricultural methods throughout the Italian peasantry; and there will probably be equal difficulty in securing the capital necessary for such engineering or mechanical outlays as might increase output or even reduce unit cost.

Clearly, Italy cannot produce sufficient food for the Italian people. Her population must, in considerable measure, depend for sustenance upon the importation of foodstuffs. The seriousness of this insufficiency of domestic agricultural production is illustrated in certain data [24] on the composition of the total food supply of Italy, shown on p. 128. The figures are not available for production and importation for 1925; but the situation in the three

[24] Taken, in the main, from the study of Professor Gaetano Zingali in the collection of memoranda prepared in connection with the negotiations for the funding of Italy's foreign public debt.

years 1922-1924 will be reasonably indicative of the normal situation, since this period included one year of an exceptionally good harvest, 1923, a harvest similar in many respects to that of 1925. Net imports are shown, but inasmuch as in may cases exports exceeded imports, the figure is frequently preceded by a minus sign, and has to be deducted from the total of production.

The table shows to what an extent the domestic food supply must be supplemented by imports. Some of the percentages are not so high, but these, for the most part, are foods of which Italian per capita consumption is notoriously slight. In the study of Professor Gini (Appendix G), will be found indication of the fact that the average Italian diet contains an insufficient proportion of the energy-producing proteins. It would appear that the average ration tends to be short by more than 200 calories, on the average, of the standard fixed by physiologists for the average man in that country.[25]

[25] This figure is 3,300 calories. Zingali gets the following results:

	Number of average men	Millions of calories available each year	Daily ration of the average man in calories
1910–14	29,170,684	32,640,809	3,065
1915–18	30,265,618	33,760,944	3,056
1919–21	31,696,355	34,404,748	2,971
1922–24	33,062,580	37,238,276	3,087

Grain products play so large a part in the Italian diet, that one is impressed by the fact that more than 30 per cent of the cereals consumed have had to be—or at all events, have been—imported in the years under review. In the four years, 1921-1924, according to Mortara, between 33 and 36 per cent of Italy's total supply of grain available for consumption has had to be imported; and he contrasts this with a corresponding average of 6 per cent for the decade 1872-1881.

In the light of the foregoing analysis of agricultural possibilities, it is apparent that, according as the Italian population continues to increase, the volume of imported foodstuffs is likely to increase. As we shall see in later chapters, the problems of industrialization and emigration are closely bound up with that of food supply.

This last figure is an average of three years, in the third of which, as a matter of fact, there was a distinct falling off:

1922	32,676,720	37,461,725	3,141
1923	33,055,510	37,715,299	3,126
1924	33,426,176	36,538,115	2,995

The conclusion to which these data point are reinforced by the demonstration of genuinely startling undernourishment presented by Professor Camis (a biologist), in a lengthy study in *Riforma sociale*, January-February, 1926, p. 52 ff.

Italy's Domestic and Imported Food Supply, 1922-1924

(In thousands of tons)

Commodities	1922			1923			1924		Total available for consumption
	Domestic production	Net imports [a]	Total available for consumption	Domestic production	Net imports [a]	Total available for consumption	Domestic production	Net imports [a]	
Wheat flour	3,181	1,974	5,155	3,468	1,969	5,437	3,603	1,428	5,031
Rye flour	85	2	87	93	3	96	97	— 3	94
Barley flour	14	21	35	14	21	35	14	11	25
Corn meal	1,108	454	1,562	1,098	395	1,493	1,302	110	1,412
Rice	282	— 99	183	298	— 78	220	336	— 140	196
Potatoes	938	— 12	926	1,153	— 17	1,136	1,274	— 18	1,256
Fresh fruit	459	— 39	420	477	— 94	383	576	— 118	458
Citrus fruit	478	— 225	253	421	— 222	199	434	— 299	135
Chestnuts	400	— 129	101	434	— 30	404	495	— 36	459
Beans	208	— 12	196	226	17	243	264	— 32	232
Green vegetables	2,519	— 57	2,462	2,798	— 75	2,723	3,382	— 93	3,289
Sugar	188	53	241	275	20	295	274	17	291
Beef	462	18	480	462	24	486	395	121	516
Mutton	45	....	45	52	....	52	46	....	46
Pork	253	....	253	191	....	191	181	....	181
Canned beef	136	— 2	134	128	— 2	126	118	....	118
Poultry	170	— 1	169	173	— 1	172	173	— 3	170
Eggs	255	— 7	248	255	— 6	249	272	— 23	249
Fish	30	2	32	30	3	33	30	4	34
Dried fish	....	81	81	....	79	79	....	83	83
Milk	1,496	....	1,496	1,567	....	1,567	1,629	— 1	1,628
Butter	23	....	23	24	— 1	23	25	— 2	23
Cheese	179	— 7	172	187	— 15	172	205	— 31	174
Olive oil	253	— 2	251	178	— 27	151	208	— 25	183

[a] The minus sign indicates net exports.

CHAPTER VI

PROBLEMS OF INDUSTRY

Italy was a great commercial center for many centuries; and her commercial development long rested in the main upon her position at the cross-roads of inter-continental trade routes. But in some measure, too, her commercial position depended upon her industries. Manufacturing survived the great transition from the Roman Empire to the territorial states and local autonomies of the middle ages; and throughout modern times, it has embraced, in steadily widening scope, the whole range of luxury goods, clothing, and industrial and transportation equipment. A century ago, Italy was looked upon as a country of merchants, manufacturers, bankers, and of students and authorities in the field of industry and trade. In the state of affairs prevailing then in Europe, this was perhaps not unnatural. But Italy did not move ahead during the nineteenth century like those countries of northwestern Europe whose political unity had long since been achieved, whose colonial empires and commercial policies assured their control of raw materials, and whose position, athwart great maritime

and land routes, had for a century, in some cases several centuries, made their leading cities the commercial and financial trading centers of the European and American world.

When unification, first in the political order, and then in the physical order, through the creation of railroads and wagon roads, had been completed, Italy began to make up for lost time, moving rapidly into the class of countries manufacturing not only for themselves but for export trade on a large scale. The development involved the partial displacement of agriculture from its overshadowing position, and the absorption of unco-ordinated local industry. It proceeded steadily in the quarter century before 1914, and the war greatly accelerated the process, drawing many thousands, of women as well as men, into industry. After the war, a large proportion of those who had returned to Italy for military service drifted into industry. The industrial requirements incidental to participation in the war naturally exceeded very greatly the normal outlet for the country's industrial production. The shock to world commerce in general in 1921 was felt very severely in the case of Italy. But the process of redistribution of the emphasis in the country's economic life, through the partial transformation of a country predominantly agricultural into one increasingly industrial and commercial in character, was neither reversed nor halted for long. Since 1922, Italy has been consolidating her position at the stage

of industrialization she had reached by that time, and preparing the way for its expansion.

We shall endeavor, in this chapter, to review the state of industry from several points of view. First, we shall survey the country's industries as they stood in 1925. We shall then consider some of the problems common to them all, such as that of industrial power, labor factors, and financial resources. A detailed examination of the part which industry plays in the economic life of the country will be found in the comprehensive survey of Italy's economic status by Professor Gini, which we have reproduced as Appendix G.

I. THE INDUSTRIES OF ITALY

Despite a lack of basic raw materials, Italy has made considerable progress in the expansion not only of the so-called "heavy" industries, but also of the more complicated fabricating and technical industries. Nearly every branch of industry has come to be represented in Italy, and commercial policy has been framed on the principle that if an industry is of any importance at all as a link in what are regarded as essential industrial processes, it should have some tariff protection.[1]

It is in the mineral and metallurgical industries, and in those directly dependent upon them that Italy has made the most progress from the point of

[1] See Appendix E, p. 496.

view of production per capita, since before the war.[2] But the two great groups of industries are those relating to metallurgy and engineering, and the manufacture of textiles. These two groups, as will be seen from the following discussion, together constitute the principal basis of the country's industrial fabric. In the production of iron, Italy advanced from something under 600,000 tons before the war to close on a million tons during the conflict; but it subsequently declined as shown in the table which follows.

PRODUCTION OF IRON ORE

(In thousands of tons)

Year	Iron [a]	Iron pyrites	Year	Iron [a]	Iron pyrites
1906.....	387	122	1918.....	694	482
1907.....	518	127	1919.....	613	372
1910.....	551	166	1920.....	382	322
1913.....	603	317	1921.....	279	448
1914.....	706	335	1922.....	311	486
1915.....	680	369	1923.....	341	495
1916.....	942	410	1924.....	238	516
1917.....	994	501	1925.....	490	513

[a] Including ferro-manganese.

The table on p. 133 is of interest for comparison in showing other mineral production in 1913 and in 1924-1925.

About 304,000 tons of pig iron were produced in Italy in 1924, against 490,000 in 1925.[3] Steel production, which rests upon the importation of scrap

[2] See Appendix G, pp. 521-2.

[3] The pre-war average (1909-1914) was 566,000 tons.

iron and steel to no small extent, ranged around 800,000 tons per annum before 1914. It rose to 1,332,000 tons during the war, fell to 700,000 in 1921, and then steadily increased to 943,000 tons,

PRODUCTION OF NON-FERROUS MINERALS

(In thousands of tons)

Mineral	1913	1924	1925
Manganese	2	12	13
Copper	89	7	6
Lead	45	41	49
Zinc	158	151	164
Bauxite	7	141	2
Metal mercury	1	2	2
Raw sulphur	386	317	286
Asphalt and bituminous rock and crude bitumen	171	187	158
Graphite	11	8	9
White and colored marble	500	468	525
Granite	389	100	73
Quartz and feldspar	32	63	60
Refractories	6	64	67
Silicates	379	267	288

1,200,000 tons and about 1,359,000 tons respectively in the three years 1922-1924; and in 1925 amounted to 1,685,000 tons.[4]

[4] A good deal of iron ore and pig iron is imported. About 574,000 tons of iron ore were imported in 1925, more than twice as much as in 1924. The average annual imports of pig iron during the five-year period 1909-13 amounted to 232,000 tons; it fell markedly after the industrial depression of 1920-21. In 1923 it amounted to 132,000 tons, in 1924 to 203,000 and in 1925 to 265,000 tons. Total imports of scrap iron and steel rose from 542,000 tons in 1924 to 958,000 in 1925. There has been a movement for several years to organize the scrap metal industry in Italy, which heretofore has almost wholly depended upon French exports, but which in 1925 was able to secure some 72,000 tons of scrap metal from Argentina owing to the reorganization of the Argentine railroads.

Upon the iron and steel industry, the control of which is rather highly concentrated, rest the engineering, electro-technical, automobile, and like industries which have assumed great importance in the shaping of the country's commercial policy.[5] Slowly the domestic equipment for the production of the metal of first importance in industry has been built up to the point where it is equal to a broad variety of fairly heavy demands. In turn, the development of this metallurgical industry has stimulated other expansion. The chemical industry has been of importance in recent years not only because of the sulphur resources of the kingdom, and the special inducement to produce fertilizer for domestic consumption, but also because domestic and foreign capital has found the growth of the metallurgical and textile industries such as to warrant extensive investment. Ship-building has expanded rapidly, until Italy in 1925 stood second only to Great Britain in volume of new tonnage launched.[6] The auto-motive and electrical industries have likewise expanded. In 1925 and 1926 both had difficult foreign marketing obstacles to surmount, yet some 29,000 cars were exported in 1925 as against about 19,000 in 1924; and in the early summer of 1926, a bond issue of $10,000,000 was floated in New York for the leading automobile company.

Turning to the textile industries, the value of

[5] See Appendix E.
[6] See Appendix A, p. 321, n. 50.

whose exports represented 40.7 per cent of the total value of exports in 1925 as against 30.3 per cent in 1913, we may follow the common practice of considering first the silk and rayon trades, and then the cotton and woolen trades.[7] In 1924, about 10 million kilograms of rayon were produced in Italy, more than half of it for export. Sixteen companies capitalized at some 1.7 billion lire, and employing 35,000 workers, produced 13.5 million kilograms in 1925.[8] The demand for rayon is growing and apparently in a few years Italy will be one of the two leading producers of this textile, the foremost being the United States. Within Italy itself the demand will grow because of the fact that the price tends to be stable, or even to be reduced, inasmuch as abundant labor and nearly all the factors entering into the manufacturing process are available at home. Only the crudest form of the fibre (namely woodpulp, prior to its sulphite treatment) needs to be imported; there can be no difficulty about supplies in any calculable time like those which weather and other factors create in the case of cotton, wool, and natural silk.

The Italian silk industry has a long history, and

[7] The hemp and flax industries have a certain prestige. Nearly all Italy's hemp is exported. There is a small linen industry which manages to get along.

[8] Exports in 1924 were 5 million kilograms and in 1925, 7.9 millions. The present state and the prospects of the rayon industry in Italy are described in a long article "The Progress of the Italian Industry," in a special supplement on Artificial Silk of the *Manchester Guardian Commercial,* March 5, 1925.

its product, destined mostly for foreign markets, constitutes an important part of the export trade of the country. In fact almost a fourth of the value of Italy's exports is accounted for by silk. But of recent years all European silk culture and manufacture has been placed at a disadvantage because of Asiatic competition upon a more and more extensive scale. The production of silk, either from cocoons grown in Italy or from imported cocoons, was steadily falling before the war. If it had not been for the post-war civil disturbances in Eastern Asia, it might have been difficult for silk culture in Italy to climb back within the last year or two fairly close to the totals of production characteristic of 15 years ago.

The silk industries of Italy managed to hold their own in the post-war period, not only because of Asiatic difficulties, but also because until 1924, the Swiss, French, and British silk mills were believed to be operating at higher costs than those of Italy; and the competitors of the latter, moreover, were unable to supply the increasing world demand for silks. In 1925,[9] the Italian silk industry began to feel keenly the consequences of the precipitate decline of the franc, and the temporarily effective competition of the Lyons factories. But it has to be borne in mind that the domestic market in Italy has begun quite recently to absorb rather more of the output of Italian silk mills, and with the increasing

[9] See Appendix E, p. 492.

use of mixed goods, partly silk and partly rayon, or linen, cotton, and other textiles, the industry seems assured of future opportunities for expansion. The silk industry has its problems, such as the wide dispersion of the ownership and management of the mulberry groves, the frequent renewal of tariff protection drives in other countries, the competition of rayon in various ways, and the emigration to France of entire families long familiar with silkworm cultivation. But the industry possesses two advantages of considerable moment. Its quite extensive capital investment largely dates from before the war, and it has not, therefore, been built up by means of expensive borrowing in quite recent years. In the second place, silk manufacture, if not silk culture, is the beneficiary of elaborate protective defences thrown up around the dye industry, for example, as well as of the gradual liberation of the country from entire dependence upon foreign fuel.

The cotton industry of Italy now employs more than 270,000 operatives (four-fifths, roughly, being women), and consumes some two million quintals of raw cotton annually,[10] practically all of which is

[10] A slight increase over the five-year average for 1909-1913 of 1,841,000 quintals; the average consumption in the period 1889-1893 was about 750,000 quintals. The output in millions of quintals has been as follows, in annual averages:

1900–03	1904–08	1909–13	1914–18	1919–23	1923–24	1925
1.2	1.6	1.7	1.8	1.5	1.7	1.8

These details, and an abundance of others, are to be found in a lengthy discussion of the cotton industry in Italy in *Giornale degli economisti*, May, 1926, p. 237.

imported.[11] About half the cotton imported is required for domestic consumption. The per capita consumption of cotton yarns and textiles, ranging around 3.5 kilograms per annum in the five years 1909-1913, by 1923-1925 had fallen to but 2.8 kilograms. Whether this fall is due to some large-scale and enduring shift to the use of other textiles, or to the more protracted use of cotton goods in consequence of post-war impoverishment, is not easily determined. But the export trade is of great importance, and may assume much greater significance in the course of time.

Although the Italian woolen industry has never assumed quite the proportions of the cotton and silk industries, it is, none the less, in a relatively strong position. More than nine-tenths of the domestic requirements are covered by domestic production of woolen goods, and export trade has shown a tendency to expand. Before the war, Mortara points out, the value of exported woolen goods averaged 30 per cent of the value of imported woolen goods;

[11] Some 10 to 15 thousand quintals of cotton are grown in Italy, although during the civil war in the United States, as much as 250,000 quintals were produced in 1864 alone .Only some limited sections of the extreme South and Sicily are adaptable to cotton culture. Yet in Sicily, at least, the average annual production per acre is said to be twice that of India or the United States. Professor Crinó is cited in *Geographical Review*, XIV, p. 473, as saying that with more modern methods of cultivation, Sicilian cotton production could be greatly expanded. Conceivably Somalia and Cirenaica will yet furnish considerable cotton, when the irrigation problem has been solved. The colonies are sending from 10 to 12 thousand quintals of cotton to Italy on the average each year.

in the fiscal year 1924-25 the exports represented 168 per cent, in value, of the imports.

Few industries withstood better the sharp changes of fortune during the 10 years following 1914, than the woolen trade; yet it has serious obstacles to overcome. The quality of the domestic wool has greatly to be improved, through the widespread diffusion of scientific standards both as to proper pasture control and as to development of better stock. As elsewhere, sheep-raising in Italy has the meat trade as well as the wool market to serve; and the meat of this group of animals is of relatively greater importance in Italy than beef and other meats.[12] Of the 650,000 quintals of raw wool consumed by the industry in 1923-24 about 260,000 were produced in Italy, and the rest drawn from Australasia, the River Plate basin, and other wool-producing countries.

Thus the wool industry is still dependent upon world market conditions, and the superior financial and technical equipment of great textile countries. The financial and managerial organization of the fabricating industry, too, reveals numerous weaknesses, although progress has been made in overcoming these handicaps in the post-war period. This may be due to the fact that technical improve-

[12] The flocks are chiefly in the south and center of the peninsula, and in the islands (five million head in the south, three and a half million in central Italy, three to three and a half million in the islands, one million in the north).

ment has enabled high quality production to attract financial support in view of the prospect of export trade.[13] Finally, there has been considerable discussion about the marketing of a new textile called, for lack of a better name, artificial wool. The fact that it is of Italian origin will not make the lot of the Italian woolen industry much more secure, even though blending comes to be used.

There is no special point in reviewing the other industries, one by one. In several cases, the expansion that has occurred since 1922 has been noteworthy. This is especially true of building and the trades dependent on it; and it seems to have been true of glass and ceramic manufacture. There has been a boom in hat manufacture, primarily for export trade. But the industries dealing with the manufacture of food products (sugar, confectionery, tomato extracts, and so on) have shown an inability to hold their ground, much less a tendency to expand. This, however, does not apply to dairy products, especially cheese. The temporary slowing up in great construction activities at home and abroad is what has caused the industries having to do with marble and related products to have several relatively lean years.

It is difficult to secure a satisfactory consensus of

[13] The average value of the quintal of exported woolen goods rose from 3,700 lire to 4,300 between 1921-22 and 1924-25, while the average value of the quintal of imported woolen goods after falling from 10,600 to 7,600 lire from 1921-22 to 1923-24, rose in 1924-25 to 12,700 lire.

opinion as to the present condition and immediate prospects of Italian industry. The prevailing view of the majority of Italian observers seems to be that it is over equipped for any discernible markets. That this might be true for some lines, though not for all, is quite the impression created by Professor Gini's study reprinted at the close of this volume.[14] Persistent inflation has so stimulated industry that present conditions are quite misleading to the casual observer. It is certain that Italy, like other countries that have passed through inflation, will in due course have to face industrial depression and perhaps, reduction of output as compared with recent years.

II. INDUSTRIAL PROBLEMS

For any such development as has been taking place in Italy in the last quarter of a century, the problem of inexpensive industrial power is paramount. Every branch of industry is affected by the lack of coal and other fuels; and owing to the rapid increase in the requirements for power, the question of how soon hydro-electric power will be able to offset the increasing importation of coal and petroleum has become one of the most urgent confronting the country.

[14] A distinctly optimistic tone prevails in two articles of Dr. Johannes Frank entitled "Die zunehmende Industrialisierung" in *Wirtschafstdienst*, July 31 and August 7, 1925. Somewhat the same impression is created by Professor Bachi's review of the year in *Wirtschaftsdienst* of April 9 and 16, and August 15, 1926.

Italy has been rapidly developing her hydro-electric resources. More than six billion lire are estimated to have been invested in hydro-electric development down through 1925, and the equipment in existence by the summer of 1926 had a gross capacity of nearly eight billion kilowatt hours per annum.[15] Within three years the installation presently under way or provided for will have added a capacity of almost a quarter million kilowatts to the two million in existence at the end of 1925; while between 1920 and 1940, according to present calculations, some 4,200,000 kilowatts will have been installed.[16] In the one year, 1925, the electrical energy consumption increased by 14 per cent; and the indications for 1926 are similar.

There is a very definite limit to the expansion of hydro-electric development. Enterprises recently undertaken have not only cost a great deal, but also have tended to present more and more serious problems of a technical character, according as the less

[15] About six billion kilowatt hours were used in 1924, four-fifths for industrial purposes. See *Proceedings of the First World Power Conference,* London, 1925; also *Commerce Reports,* Washington, August 3, 1925, p. 269; *Journal of Commerce,* New York, September 17, 1925; and Mortara, *Prospettive economiche,* 1926, p. 322.

[16] The development of the hydro-electric resources of Sardinia, for example, in consequence of the construction of the dam across the Tirso river, and the creation of a great artificial lake, is expected to make possible the exploitation of the zinc deposits and other resources of the island, and even lay the foundation for an industrial development through the liberation of Sardinia from the necessity of importing coal. See *Geographical Review,* July, 1924, Vol. XIV, p. 473; and July, 1926, Vol. XVI, p. 395.

accessible waterpower has been harnessed. The best sites have already been exploited, and while many such installations can be enlarged or improved, the expansion will have to come, in the main, from the utilization of sites heretofore not regarded as profitable. In a word, additional expansion will be under conditions of steadily diminishing returns.

The resort to hydro-electric power at great cost is better understood when Italy's situation with regard to coal and petroleum is taken into consideration. In the eighties of the last century, the average annual consumption of all kinds of coal hovered around 4 million tons; this average rose, in the following decade, to 5 millions. Then the national requirements began to increase rapidly, until they exceeded 12 million tons for 1913.[17] The years that followed saw more need than ever for coal, but the shortage of supplies and more especially of trans-

[17] Coal production, in thousands of tons, has been as follows:

1913	1918	1920	1921	1922	1923	1924	1925
701	2,171	1,740	1,143	946	1,133	1,048	1,116

The latest full discussion of the coal and petroleum resources of Italy is to be found in a paper by Professor G. de Marchi, in the *Proceedings of the First World Power Conference,* London, 1925. Professor de Marchi estimates the coal supply so far ascertained as about 13 million tons, and the lignites of average and low heating power as about 280 million tons, much of it, however, not practically capable of exploitation, except through some such distillation process as that reported in 1926 to have been developed in Germany for the low temperature distillation of lignite.

portation facilities brought about a severe decline in consumption.[18]

Almost all of this coal had been imported, some 9 or 10 million tons of bituminous (three-quarters of which were normally steam coal, and one-quarter gas coal) being the chief item in the years just before the war, along with 700,000 tons of anthracite and 300,000 tons of coke, proportions not far from those since obtaining. The coal imports in 1925 increased over those of the preceding year in volume by 10 per cent. Poland and Russia were included as future sources of coal, and with the former country, there was concluded an agreement whereby a half million tons were to be sent to Italy every year. This arrangement has so far given very mediocre results, only about 28,000 tons being delivered before the end of 1925.[19] And the situation of Italy with re-

[18] ITALIAN COAL CONSUMPTION IN MILLIONS OF TONS *

1914	10.9	1920	7.4
1915	9.0	1921	8.4
1916	8.7	1922	10.2
1917	5.8	1923	10.9
1918	6.8	1924	12.4
1919	7.5	1925	11.1

* *Prospettive economiche,* 1926, p. 292.

The consumption of 1924 was distributed as follows: 7 million tons for industry, 4 millions for transportation, 1 million for domestic use.

[19] From Russia some 54,000 tons were received. The value of coal received from Germany under the provisions of the Treaty of Versailles and all subsidiary agreements is not included in these figures. Those imports have not been inconsiderable, amounting (in thousands of tons) to 33 in 1919, 987 in 1920, 2,442 in 1921, 2,621 in 1922, 1,479 in 1923, 3,609 in 1924, and 1,723 in 1925. Reported in *Gazzetta ufficiale,* for period covered.

gard to petroleum affords no prospect of differing greatly from that of coal. Consumption has risen from less than a quarter of a million tons in 1913, to two-thirds of a million in 1923-24, not 1 per cent of which is produced within the kingdom.

It is obvious what a handicap the costliness of coal and petroleum must be to the profitable conduct of manufacturing in Italy. The greater distance of her ports from the sources of these fuels, the relatively less satisfactory arrangement of return cargoes, and like disadvantages, operate to increase by 50 per cent the cost of coal for given Italian industries over its cost for similar lines in countries of northern and western Europe. In the case of petroleum the unfavorable difference is said to be still greater; but here again, the process of lignite distillation mentioned in note 17 on p. 143 may help.

The inadequate supply of liquid capital has presented a serious problem for Italian industry continuously since the war. A shortage of funds has been characteristic both of the ordinary commercial banking market and of the investment market. Italy's commercial banking resources have never been as abundant as those of other important countries. In the post-war period, moreover, a more or less persistent rise in prices has absorbed such supplies of liquid funds as were available, thus producing high interest rates and necessitating further inflation. The customary easing of the money market in time of deflation did not occur in Italy in

1921, because of the relatively short duration of the depression period.[20]

The volume of Italian savings is relatively small and in consequence the flow of funds into the investment market is restricted in amount. At the end of 1913, the total deposits in savings banks and interest-bearing time and current accounts amounted to 6,447 million lire. A decade later this total had risen to 28,495 million lire, or 7,126 millions in gold. As of December 31, 1924, total deposits of these categories amounted to 32,874 million paper, or 8,137 million gold. While the nominal total in the ensuing 12 months increased so that on December 31, 1925, these classes of saving amounted to 33,388 million paper, the total in terms of gold was only 6,898 millions.[21] These post-war totals in no way reflect the shrinkage in the purchasing power of gold since 1914; but even without taking account of this important factor, one sees at a glance that the savings of the Italian population available for any sort of economic expansion have increased neither in proportion to the increase in the population nor in line with the augmented industrial equipment with which the country has sought to provide itself. "Industrial development has been more rapid than the increase of national savings." [22]

As a result of this situation, Italian industry has

[20] For references on Italy's banking development, see Appendix F.

[21] From *Gazzetta ufficiale;* see also Appendix G, p. 517.

[22] *Economist,* London, October 10, 1925, p. 578.

been under the necessity of resorting steadily to the commercial banks for the funds required for industrial expansion. The network of small banks covering the country heads up in certain great institutions which necessarily maintain close relations with the banks of issue and the government on the one hand, and with the leading commercial and industrial enterprises of the country on the other. Thus that portion of the available liquid funds of the country which is not absorbed in local realty operations or in public securities finds its way eventually into the financial centers and is utilized in one or another form of investment. In other words, those banks of Italy which furnish current commercial credit facilities, and co-operate with the banks of issue in carrying out currency policies, at the same time serve as the principal agencies for supplying not only operating capital for the purchase of raw materials and the like, but even permanent capital for the expansion of plant and equipment. It thus has come about that the closest possible relation exists between the banks and industries, and the affairs of the latter are governed pretty directly by the exigencies and requirements of the former.

Not only are industrial establishments affected by the fortunes of the banks in a very direct way, but they have also been obliged to put up with the consequences of currency speculation during the last half dozen years. This speculation has caused recurrent crises of great credit stringency, the de-

fensive measures against which necessarily affect adversely the situation of manufacturers and traders, first of all with regard to their foreign operations, but even to some extent in connection with their domestic operations. In passing, it might perhaps be well to note that this situation is brought about not only by perverse speculators but also by the speculative habits of importers of all sorts. A practice has grown up of waiting for the lira to improve before settling foreign accounts; and this brings about an enormous demand for foreign exchange every so often when everybody tries at the same time to cover his requirements, thus creating a financial commotion and making altogether miserable the life of the manufacturer who uses foreign materials.

Attention must be called to a factor of a rather indefinable character, yet one whose consideration is indispensable to any real comprehension of the industrial life of the country during these post-war years, when in all countries the gambler has been stalking through precincts where he never dared walk before. The industrial growth of Italy has had its *quantum* of demoralization and gross betrayal of trust. There have been astonishing examples of mushroom organization and "shoe-string" methods [23]

[23] The case of the Ilva iron company, and subsequently other promotions of Max Bondi, the real estate syndicates "Beni Stabili" in Rome and "Ades" in Genoa, sugar refineries, distilleries, and others furnish good examples of this. Bondi apparently had abundant credit at his disposal until the government decided to see that he was brought to book; whereupon (in

which might have been less noteworthy in countries where "frontier" conditions have not been wholly eliminated even from industrial organization and finance. But these occurrences have not left any lasting mark on the industrial situation as a whole, and the manifest determination of the Fascist administration to chastise severely those who abuse the law, public confidence, or the recognized and proper practices of business, brightens the immediate prospect in this regard.

A period of severe business depression in Italy must, however, undoubtedly produce a large harvest of bankruptcies and necessitate the weeding out of many speculative ventures which have come into existence as a result of the opportunities presented by an era of inflation. A severe business depression might, however, have the advantage of creating a capital supply for business, for the gradual liquidation of outstanding loans, together with the general decline in the level of prices, might at the end of such a period leave the Italian banks and money market somewhat better off, as in other countries following deflation.

It remains true, however, that the relative scarcity of liquid capital in the country constitutes a permanent industrial handicap. The cost of borrowing by industrial enterprises whether at home or

mid-winter, 1925-26) he failed with liabilities of 164 million lire, and assets of but 14 millions. See Bachi, in *Wirtschaftsdienst,* February 2, 1926, p. 196; compare Robert Lewinsohn, *Die Umschichtung der europäischen Vermögen,* Berlin, 1925.

abroad will remain comparatively high and thus adversely affect Italy's producing and exporting power.

Another serious difficulty with which Italian industry is confronted is the wages problem. While Italy has a dearth of natural resources she has abundant human resources. She therefore has no labor problem in the sense of a shortage of labor power for the work to be done, but there is, nevertheless, an acute wage problem. Such success as Italy has had in meeting international competition in industrial lines has been achieved largely by reason of the willingness manifested over long years by both employers and employees to get on with moderate compensation for capital and labor. But the cost of living has been rapidly growing, and the problem of readjusting the compensation of labor to new levels has been steadily pressing for attention, even in these recent years.[24]

The index numbers show the relentless rise in the cost of shelter and food not merely with respect to 1913 bases but even in comparison with levels achieved during the boom years. With 1925, the Municipal Statistical Office of Milan commenced making a comprehensive index number for the entire country, the basis being the average cost of food, clothing, shelter, heat, light, and other indispensable expenses of a working family during 1920. The index number for the entire year 1925 on this basis

[24] See Appendix F. pp. 510-11; and Appendix G, p. 531 ff.

was 137, and for the first six months of 1926, it averaged 146.

The Fascist Administration has sought to guarantee a living wage to labor as a corner stone of its general economic policy. It has done this, of course, on the assumption that it will receive in return an unreserved acceptance of Fascist leadership in the state. We adverted in Chapter I to the origin of the Fascist movement, several of the important roots of which started from the wage-earning classes. It is a fact that wage struggles led to the great crisis of 1921 during which much violence was displayed and at the height of which factories were seized and operated by workers. The leaders of the Fascist movement did not fail to realize that no small part of its success in 1922 was to be attributed to the widespread national dissatisfaction with the industrial situation after that crisis; and the dangers of the future were clear to them.

The labor policy of the Fascist administration has been a matter of only gradual development. At first, Fascist labor unions were formed—often radical enough. But the Socialist labor unions, united in the General Labor Confederation, enjoyed the prestige of some years of traditional leadership, and were not easy to dislodge; while the unions affiliated with the Popular party had the support, to some extent, of the Catholic hierarchy. At length, the Fascist administration undertook to reorganize the basic relation of labor to industry. In the winter of

1925-26, legislation was formulated [25] whereby it was expected to eliminate class conflict once for all. In each district all professional groups are organized; the employers and laborers in a given line are in one *sindacato;* the lawyers in a *collegio;* the actuaries in their *ordine*—and so on. Each of these officially established corporations alone has legal personality, and the contracts which it makes affect *all* in the industry whether or not members of the corporation; other organizations may exist, but they are to have no voice in the settlement of industrial conflicts. Contributions to the support of the corporation are fixed and obligatory, whether or not the individual elects to belong to the *sindacato* or other group; and they consist of one day's wages in the month for the employed, or one day's pay roll for the employer. When disputes arise, they automatically come at once before one of the 16 courts of appeal, consisting of three magistrates and two assessors selected from a list of experts. Their decision is binding; strikes and lockouts are forbidden, under extremely heavy fines.

But the Fascist administration has gone even further in its aim to weld labor and the other producing classes into a common social fabric. There was set up in the winter of 1925-26 in Italy (and in-

[25] A good summary is to be found in the *Economist,* London, January 9, 1926, p. 64, and an interesting discussion by Professor Michels in *Wirtschaftsdienst,* August 20, 1926, p. 1129. The legislation was finally enacted on April 3, 1926. On strike statistics in Italy, see the government report *Conflitti del lavoro in Italia nel decennio 1914-23,* Rome, 1924.

tended even to operate, in modified form, in foreign countries wherever Italians live in large numbers) an establishment known as the *Istituzioni di Dopo Lavoro,* which, translated as to content rather than literally, would signify "Welfare Institutes." These boards are intended to supplement and complete the system of protection of labor, at home and abroad, from exploitation, and to round out the program of social insurance inaugurated by the government. The workman is to be assured adequate leisure, exercise, entertainment, and supplementary educational opportunities. It is in effect, the balance and compensation for the imposition of compulsory arbitration.

Time alone will tell whether this far reaching program can operate as successfully in periods of depression as in those of industrial expansion such as Italy has been experiencing. It has a solid basis of logic, once one accepts Italian living conditions as they are—congested and precarious in every walk of life, including even agriculture. Hostile criticism based upon the ground that labor had no chance to accept or modify this proposal has been freely voiced in the United States, and particularly in England, where traditional deference to the individual right of contract has survived even in this age of industrial integration and rapid aggrandizement of the police power of public authority. In any event, a procedure for handling the relation between shifting price and wage levels has been established in Italy,

which will take care of the problem while the present phase of industry is in process of development there.

Surveying now the relation of industry and agriculture, one is forced to the conclusion that the latter has not been holding its own nor keeping pace with the requirements of a growing population struggling to improve its standard of living. Intense industrial activity of the country during the past few years, together with the relatively high returns that industry has yielded, has in Italy as in numerous other countries lured population from the farm to the city and upset to some extent the old balance. An industrial depression resulting from currency stabilization will, however, doubtless tend to restore the balance, as may also the efforts of the government to make the country more nearly agriculturally self-sufficient.

The effort of men of powerful minds and great force to employ the great resources of governmental machinery in order to bring about an orderly co-ordination of industry within the entire complex of national life is one of the most fascinating experiments that the student can follow. There have been epochs, as in the Roman State under Augustus, when the effort has been successful for surprising periods of time; and there have been other times, as in the Spain of Philip the Second, when it has not worked at all. Much depends upon the strength and direction of the external forces against which the given

nation must make head. One cannot say with assurance to which category—of success or of failure—would have belonged the results of the most notable attempt in modern times, that of Prince Bismarck, nor can we yet do more than speculate upon the outcome of the "Fascistization" of the economic life of Italy.

CHAPTER VII

POPULATION PRESSURE AND EMIGRATION

THE analysis of this volume has thus far been devoted primarily to a consideration of Italy's basic material resources and the extent to which they have been developed. In brief, we have found that the material patrimony of Italy is not a rich one. Neither in soil resources, in deposits of the precious metals, nor in such essentials of industrialism as iron and coal is Italy well endowed. Accordingly the standard of living of the Italian people has long been much below that of most of the other countries of western Europe.

The want of basic material resources, as we have seen, has necessitated the importation of a considerable proportion of the nation's food supplies and much the greater part of the raw materials and fuel required for Italy's developing industries. Exports of fabricated goods and the proceeds from a variety of services rendered to foreigners have typically not yielded sufficient sums to cover the cost of imports, and as a result Italy has long been a borrowing country. While other old and densely populated European countries, such as France, England, Hol-

land, and Germany, had before the war accumulated a considerable volume of interest-yielding foreign investments, Italy had not been able to build up any net foreign assets, but, on the contrary, had been under the necessity of importing capital. Italy's borrowings, moreover, have not, like those of the United States, been primarily for the purpose of exploiting highly productive natural resources, for Italy has had comparatively few resources to exploit, so far as we know to-day. Her borrowings in the last generation or two, in the main, have rather been the result of an inability, notwithstanding low standards of living, to produce a surplus of goods for export or to render a sufficient volume of services to foreigners to cover her principal import requirements. In a word, the dearth of resources has imposed a permanent handicap upon the Italian nation and rendered their economic situation precarious.

On the other hand, no modern country has been more richly endowed with human resources than Italy. There has been no lack of brains or of brawn to do the nation's work. But a large population has an economic significance quite distinct from that of abundant natural resources. Indeed, in a country physically under-endowed, the growth in the size of the population may present important problems of economic adjustment. Italy has suffered from population pressure ever since the shift of world trade routes deprived her of what had for centuries been her most valuable asset, namely, her international

commercial and banking business. Since that commanding position in European trade was lost, the country was thrown back upon its own natural resources in large measure, under conditions that made it impossible to develop a surplus of exports and to maintain a strong international economic position.

In the present chapter, an attempt is made, first to survey briefly the Italian population problem both before and since the war and, second, to indicate the present status of emigration. Phases of economic policies involving the relation of population and resources will be discussed in the concluding chapter of the volume.

I. EMIGRATION BEFORE THE WAR

While the large-scale Italian emigration movement is a comparatively recent phenomenon, there has always been an important individual movement of Italians into other countries. As teachers, artists, merchants, and soldiers of fortune Italians have kept up the tradition of pioneer traveling for which they became noted during the later middle ages.

The pressure of population against resources has long been a subject of discussion in Italy. The peninsula probably had a population of about 6 million at the end of the Roman Republic, about 11 million in 1600, and about 17 million in 1800.[1] Long

[1] See discussion on *Bevölkerungswesen* in *Handwörterbuch der Staatswissenschaften*, 4th edition, Jena, 1924.

before economists in France or England began to concern themselves over the growing gap between death and birth rates, Italian writers were arguing that population might overtake resources in the not distant future.[2] If space permitted, it would be of interest to cite some of the observations on this point in the works of Botero, who wrote in the sixteenth century, or in those of Giammaria Ortes, the remarkable Venetian scholar of the late eighteenth century to whom we are indebted for the invention of the term "national economy" which preceded "political economy" and "economics" as names of the science. A century ago emigration had come to be regarded as something to be definitely encouraged by the state. In the later years of the nineteenth century, the emigration problem played an important part in stimulating the adoption of a half colonial, half imperialistic policy.

The great Italian migration movement of the later nineteenth century was a part of the larger European emigration to the western hemisphere and Australasia. This movement began to gain its first significant momentum following the Napoleonic wars. It was the first great migratory movement of history that took the form of a transfer of individuals or families rather than tribes and peoples as a whole. It was also the first movement in which emigration did not proceed along the lines of colonial

[2] The discussion of this problem played considerable part in breaking down the *laissez faire* attitude.

expansion. The beginning of the movement occurred during a great wave of pessimism regarding the consequences of overcrowding in Europe and made possible the supersession of that pessimism by the relative optimism of the latter part of the nineteenth century. The individual emigration movement of this century was made possible by the development of the principles of individual freedom which characterized all of the leading countries of western Europe in the eighteenth and nineteenth centuries.

The great Italian emigration movement began in the decade of the seventies. While there was a comparatively large movement of Italians out of Italy more or less continuously throughout the nineteenth century, it was not until some years after the unification of the kingdom that the movement assumed large proportions. The coming of cheap railroad and steamship transportation and the opening up of the United States and South America were the great factors in the Italian emigration movement which began after the Civil War in the United States. The ship agent looking for return cargoes to America and the development of the mass employment contracts by railroad construction and industrial managers played an important part in quickening as well as enlarging the movement. The developing industries of the United States and the agricultural and livestock expansion of Argentina in the last quarter of the nineteenth century, drew hundreds of thousands

across the Atlantic. Within less than 50 years, 15 million Italian people had left their native soil, though more than half of them subsequently returned, taking with them accumulated savings which added materially to the capital resources of the kingdom.[3]

The north Italian tended to emigrate to central European countries (notably Switzerland), while the south and insular Italian almost invariably embarked upon a trans-Atlantic journey. The following table shows emigration by destination from 1881 to 1925.

EMIGRATION BY DESTINATION, 1881–1925

(In thousands)

Period	Europe and Mediterranean Littoral	Trans-oceanic	Total for the period
1881–1890	919	951	1,870
1891–1900	1,288	1,546	2,834
1901–1909	2,261	3,114	5,375
1910–1914	1,387	1,862	3,249
1915–1918	206	158	363
1919–1923	638	754	1,392
1924	239	125	365
1925	178	102	280

[3] Particularly in the case of north Italians, regularly seeking temporary employment in adjoining countries, there was an extensive movement back to the country of origin whenever unemployment became serious in the countries of immigration. A great deal of emphasis has frequently been put upon the temporary character of Italian immigration into the United States; yet apparently a larger proportion of trans-oceanic British emigration has been markedly seasonal and more markedly still affected by business prospects. See Johnson, S. C., *British Emigration to North America, 1763-1912*; London, 1913.

Between 1876, when official statistics of emigration and immigration began to be taken, and 1880, total emigration amounted to about 544,000. Probably no great amount of repatriation occurred in that half decade nor for that matter in the succeeding decade. In the nineties, however, and throughout the present century, repatriation has been an important factor in determining the net reduction of the national population through emigration. Official records of repatriation begin only about 1902.[4] The importance of repatriation in the later years is seen from the fact that no less than 1,368,000 Italians re-entered Italy in the decade from 1910 to 1920 (1,174,000 in the short period from June 1, 1915, to November 30, 1918), while from 1921 to 1925 the total of repatriation amounted to about 694,000. For this decade and a half, therefore, net emigration amounted to something just over 3,100,000.[5]

The emigration movement resulted in the adoption

[4] See *Annuario statistico dell' emigrazione*, Vol. I., Rome, 1918.

[5] NET EMIGRATION BY DESTINATION, 1913–1925

(In thousands)

Period	Europe and Mediterranean Littoral	United States	Other Transoceanic Countries	Total for the period
1913–1921	1,170 [a]	148	300	1,618
1922–1924	358	42	276	676
1925	87	44		131

[a] The detail of repatriation from European and Mediterranean countries is available for 1921 but not for 1913-1920; it was probably more than 70 per cent of the figure for gross emigration given above, 1,170 millions.

of new standards of living more or less throughout Italy. There was scarcely a village in the kingdom that did not even in the early stages of the emigration movement receive its correspondence from foreign cities, often overseas, carrying impressive reports of material prosperity and individual advancement. Thus the Italian people developed a community of interest with the peoples of many lands and imbibed from them new ideas of life and living. Moreover, the flow of foreign money into Italy which resulted from the emigration movement made possible the gradual realization of the higher standards of living to which the people had come to aspire.

It is difficult to over-emphasize the general social and economic consequences of the migration process. Not only did the Italian people come to render important service in the exploitation of the world's natural resources and the development of industrialism in other countries, but Italy herself received a very great stimulus both socially and economically. Italy came, moreover, to rely upon the permanence of the whole process and even to develop her entire economic structure on the assumption that freedom of human migration would go on undisturbed.[6] This

[6] Indeed, rather than barring out Italian immigration other countries were willing to conclude treaties with Italy looking to the protection of Italian immigration whether seasonal or permanent. As far back as 1896, this question was regulated so far as Tunisia was concerned by a Franco-Italian Convention. In 1904, a treaty between France and Italy regulated the position of nationals of either country working in the other on a basis

was a natural assumption, for it would have been difficult in the decades preceding the Great War to foresee a state of public opinion in the countries of immigration sharply antagonistic to further accretions of Italian stock.[7]

II. THE POST-WAR SITUATION

From the end of the war to the date of the census taken at the end of 1921, the population of Italy increased by between 6 and 7 per cent; and the addition to the national territory did not account for more than half of this. More than one million persons had returned to Italy in the years 1914-1918.

of reciprocity. There were then about 260,000 Italians in France and about 8,700 Frenchmen in Italy. See Yves Guyot, in *Journal des économistes*, October 15, 1925, p. 250 ff.

[7] On the social consequences of pre-war emigration, one of the best books of its kind is that of Professor August Sartorius von Waltershausen, *Die sizilianische Agrarverfassung*, Leipzig, 1913; and in English there is a valuable contribution by Professor Robert F. Foerster, *The Italian Emigration of Our Times*, Cambridge, 1919. Two recent general works are fundamental: G. Pertile, *La revoluzione nelle legge dell' emigrazione*, Turin, 1923, and F. Virgilii, *Il problema della popolazione*, Milan, 1924. An extensive and useful general discussion appears in Vol. I of *La questione meridionale* of Professor G. Arias, Bologna, 1921. See also V. Falorsi, *Problemi d'emigrazione*, Bologna, 1924, F. Sulpizi, *Il problema dell' emigrazione dopo la rivoluzione ed espansione coloniale*, Padua, 1923; and for early aspects of sociological results of emigration, A. Niceforo, *Italiani del nord e italiani del sud*, Turin, 1901. Two books which the writer has not seen appear also to merit consultation: P. E. DeLuca, *Dell' emigrazione europea ed in particolare di quelli italiana*, 4 vols., Turin, 1910, and Francesco Coletti, *La popolazione rurale in Italia*, Piacenza, 1925. *The Bollettino* of the official Commissariat of Emigration at Rome is an inexhaustible mine of articles and statistics; attention may be called in particular to two valuable discussions of policy and future problems in the issues of May and June, 1926, pp. 457 and 613.

Most of them were, of course, adults, many of whom married and settled down to remain. In 1920, the tide of large scale emigration began again, with a total of more than 400,000; but the world-wide crisis of 1920-21 soon shut down the channels of distribution, and never since has there been any return to the pre-war proportions. A considerable emigration persists, particularly to France, but it is of a quite different character from that of pre-war days, being now permanent and by family groups.

The reasons for this tremendous change in the emigration situation of Italy are soon stated. The United States Immigration Act of 1924 reduces to an altogether negligible number those eligible for admission to this country. There is said to be a strong likelihood of similar discrimination along racial and language lines on the part of Australia, whither a growing number of Italians have gone since 1921. The third great trans-oceanic country of Italian immigration is Argentina, which has not discriminated along racial lines, to be sure, but which, after all, has a relatively limited absorptive capacity. Between January 1, 1919, and December 31, 1924, the excess of total immigration into Argentina over emigration therefrom was about 417,000 and of these about 158,000 were Italian.[8] Argentina can hardly

[8] *Boletín de la Confederación argentina del comercio de la industria y de la producción,* April, 1925, p. 120 ff. It is an interesting detail that while the Italian immigrants into Argentina formerly furnished most of the agricultural labor, they, like the Spanish and other European immigrants have more recently

digest any such number in the five or six years beginning with 1925 unless world requirements for her meat, wool, hides, grain, and other raw materials expand very rapidly and dependably, or her petroleum development suddenly picks up speed. Neither Canada nor Brazil nor any of the other possible destinations will be in any condition to attract extensive immigration from Italy or elsewhere in the immediate future.

France now constitutes the principal outlet for Italian emigration. In the five years just before the war, an average of only 67,000 Italians went annually to France. But the rehabilitation of the devastated areas and the demand for unskilled and skilled labor in the expanding French industries drew large numbers of Italians to France after the war. In 1922 as many as 109,000 Italians entered France; in 1923 the figure rose to 183,000; in 1924 to 231,000; and in 1925 it exceeded 300,000. At the end of 1925 it was estimated that there were fully 800,000 Italians in France.[9]

In 1923 the character of this immigration into France underwent a change. Instead of being primarily temporary labor under individual or col-

been absorbed in urban construction enterprises, packing-houses, textile factories, and the like. Professor Foerster in *American Statistical Association Quarterly Publications*, June, 1919, p. 347 ff., declares that the calculation of 28 per cent of Argentina's population as Italian is conservative.

[9] By M. de Guichen, reported in *Journal des économistes*, October 15, 1925, p. 250.

lective contract,[10] the current of Italian immigration since 1923 has comprised, in increasing degree, agricultural laborers or tenant farmers. Crossing from the northern and central regions of Italy for the most part, into the southwestern and southern departments of France, these immigrants have begun to come as entire families, and to take semi-leaseholds in French regions that have been for some years short of agricultural labor.[11]

This transfer of population *en masse* from Italy to France is the least welcome form of relief which could come to the former country in her effort to settle the population question. It takes agricultural workers from the northern plains and hill-slopes and does not greatly relieve the less favored center and

[10] The collective contract is one made with the intervention of public authority, at least on the Italian side, the Commissioner of Emigration being authorized and directed to pass upon the terms of the contract. The magnitude of the movement under these contracts is surprising. Between January 1, 1922, and March 31, 1924, 46,000 Italian laborers entered France under individual contracts; and between July 1, 1921, and March 31, 1924, 65,000 workmen proceeded to France under collective contracts. *Journal des économistes,* November 15, 1924, p. 386. In 1923, according to Coletti, speaking at Paris in 1925 (see *Journal des économistes,* October 15, 1925, p. 250) 100,000 Italians left France as the reparation labor no longer could furnish them with employment.

[11] See A. Bouton, "La colonisation rurale de la France par les étrangers," in *Economiste européen,* November 27 and December 4, 1925. There is a curious sidelight on conditions in France in this article, the tone of which is that of reluctant and grudging tolerance of Italian workers. Bouton remarks that only hardships at home compel these peasants to flock into France and he cites among these hardships the fact that taxes are far more burdensome in Italy than in France. Whereas a given Italian peasant will have to pay 5,000 lire in taxes, a French peasant, presumably in equivalent circumstances, will have to pay 2,000 or 3,000 francs.

south. It may also mean the creation of a large silkworm industry in France through the diffusion of north Italian methods of silkworm culture there. In this connection, it is worth recalling the part played by Italian immigrants in California in developing the citrus fruit industry there. Moreover, the departure of these immigrant families from Italy definitely shuts down, so far as they are concerned, any stream of remittances to that country. In fact it does a good deal more, for such families appear to take out of the country their accumulated savings or the proceeds of their sales of capital assets, and the movement thus actually diminishes the national wealth and income of Italy.

Advantages undoubtedly exist in the fact that this movement has got under way; but it represents a very different sort of economic phenomenon from that of the older types of Italian emigration. Families having gone as units, there is less likelihood of a drift back to Italy, at least in the case of the agricultural settlers. They are closely gathered in given districts, numbering, by 1925, one to every five French peasants in some of the Garonne basin departments and one to every ten around Toulouse.[12] But the prospect that France will continue to take in the overflow from Italy for any length of time is not very favorable. Let a year or two of unemployment overtake France and a great

[12] *Geographical Review,* July, 1925, XV, pp. 482-3; see also *Révue économique internationale,* April, 1926, p. 140.

hue and cry will go up against all the foreign laborers who have come to eat the substance of hard-working Frenchmen.

Present outlets for Italian emigration are meager. Belgium absorbed many more Italians after her reconstruction work began than she had taken before the war; but Belgium is too densely populated to offer any permanent opening for Italian immigration. In 1922, 27,000 Italians went to Belgium and Holland; in 1923, 16,000; in 1924 about 11,000. Switzerland before the war was one of the great outlets for Italy: the five year average, 1909-1914, approximated 82,000 Italian immigrants. This became 7,000 in 1922, 9,000 in 1923, and 14,000 in 1924. While the German and Austro-Hungarian empires absorbed 100,000 Italians annually, the states which replace these empires have attracted no more than seven or eight thousand Italians in any post-war year.[13]

The Mediterranean littoral and the Balkan Peninsula have afforded little relief. Outside of Tunis, and a few Levantine trading centers, neither the eastern nor the western Mediterranean furnishes any reasonable prospect of taking care of an overflow from Italy.[14] The colonies of Italy will not support

[13] See *Prospettive Economiche*, 1925, p. 425 ff.

[14] It is interesting to note that Italian shipping interests are more intent than ever upon securing for themselves a dominant place in serving emigrant traffic by building large vessels designed to carry not only all the emigrant business around Mediterranean ports, but also Spanish, Portuguese, Greek, and Balkan emigrants to trans-oceanic destinations; and they have made important agreements with governments in this connection.

the Italian populations they now embrace, not exceeding 100,000 in all. Four-fifths of the economic activity of these people rests in reality upon the expenditures, capital and current, which the government is making in the colonies.

Nor does seasonal emigration offer any solution. Over-industrialized central and western Europe (except France) has no need for many Italians. While the economic disorganization of eastern Europe calls for engineers and constructors of whatever nationality, as well as capital from all, it offers no permanent outlet for the emigrating population of other countries.

Within Italy a very minor degree of relief from the pressure of population may come about through the expansion of migratory labor movements which have existed on a small scale. To this effect, early in 1926, the government set up a board charged with the duty of supervising and encouraging internal migratory movements. It is also possible that the prosecution of various public works may give employment in different parts of the country for several years to come. For example, the draining of the Pontine marshes, which has been discussed for many years, seems likely to be undertaken at last, and if it is successfully carried out may well facilitate the settlement of many thousands of people in that region which is now so unproductive; incidentally it may be pointed out in passing such a development will facilitate the furnishing of food supplies to metro-

politan Rome. There are a good many such enterprises on the mainland and in the islands, and it is largely a question of the extent of the financial resources that will be available to set them definitely on foot. But it is obvious that large scale transplantation of the population is not feasible nor would it greatly relieve the pressure if it were. The mere taking of great masses of people and redistributing them over the kingdom will not appreciably increase their aggregate production so long as the given physical setting remains what it is.[15]

The prospects, then, of an opening for her emigrants are poor in whatever direction Italy may look. New emigration has practically ceased to proceed to the United States, whose government is reserving the quota openings for Italians under the Immigration Act of 1924 for wives and other close relatives of emigrants already gone to the United States. The very fact that these relatives proceed to this country means a diminution of the international income of Italy to a certain extent, for remittances will no longer be sent to them. The prospects overseas are mediocre. It is reported that Canada has lately made a treaty with Italy whereby some 10,000 Italians may each year enter the former country. In Latin-America, the outlook is unattractive for the most part on the west coast, with occasional modest opportunities in northern South

[15] This is said chiefly with reference to national income and international obligations. Redistribution might well have very valuable results.

America and around the Caribbean. As for Brazil, which admitted 1,440,000 Italians between 1820 and 1924, it is highly improbable that opportunities for the profitable economic absorption of the annual average number of Italian immigrants in recent years can be maintained during a period of deflation and consequent depression which sooner or later must inevitably be traversed by that republic.[16] Argentina, as already noted, can be expected to absorb only a small part of Italian emigration. At the same time, for a number of reasons, Italian repatriation is likely to occur on a large scale from some of the transoceanic countries.

The falling off in emigration has an adverse effect upon many phases of Italian economic life. It affects the nation's international income, since as the volume of remittances from Italians living abroad decreases the resources of savings banks and government savings offices will be correspondingly reduced. The process of breaking up the great estates in the South which in the main has depended upon the purchases made by repatriated emigrants or with funds sent by emigrants will depend in large degree upon government policy and action. The fact that families are likely to have constantly fewer workers earning funds abroad must, in the course of

[16] The annual average of Italian immigrants into Brazil during the period 1820-1924 was 13,720; but for the period 1820-1889, it was only 4,699, while from 1890 to 1924 it was 31,762. See an address delivered at Rome, December 17, 1925, by Dr. Bulhões Carvalho, entitled *Progrès de l'émigration italienne au Brésil*, Rio de Janeiro, 1925.

time, affect their ability to educate their sons (and daughters) rather than have them go early in life to industrial centers, perhaps themselves following *en masse*. Of particular significance is the fact that the pressure of population against resources tends to reduce the productivity of those who must work under increasingly unfavorable economic conditions.[17]

Emigration to-day is restricted to a minimum. Fortunately, there has been but little unemployment to aggravate the problem. But industrial production may slump for any one of a number of causes; and if it does the remarkable freedom from strife between labor and capital (as distinguished from socio-political warfare between Communism and Fascism) which has characterized the years 1922-1926, may end. The pressure of the emigration problem will then be felt in all its poignancy.

[17] One must not assume that the Italian national legislature and executive treat this matter with indifference. As a matter of fact, every effort has been made to place the emigration process upon a sound basis. The Commissariat of Emigration has been for years tightening and improving its restrictions upon the kinds of emigration and supervision of emigrant ships and conditions generally; of late years professional and technical courses have been instituted to prepare emigrants adequately to meet requirements of countries of immigration. On December 15, 1923, a royal decree established the Istituto di Credito per il Lavoro Italiano all'Estero (National Credit office for Italian Labor Abroad) for the financing of emigration movements; the State guarantees 3.5 per cent on the debentures, and 4.5 per cent on the stock of this establishment, also nominating most of the directors. The Italian government fully realizes that this sort of investment is always conducted at a direct loss, but possible remote gains seem to it to justify the immediate outlay.

CHAPTER VIII

CURRENCY AND EXCHANGE

An essential part of the economic organization of a nation is a smoothly operating monetary and banking system. Indeed, the currency system of a country plays a singularly important part in the whole process of wealth production and exchange. An adequate supply of liquid funds is indispensable to the conduct of existing business and the expansion of industrial enterprise; and relatively stable exchanges and commodity prices are a fundamental requirement for general economic stability. Currency and exchange are related to fiscal and trade and production problems both as cause and effect. That is to say, the character of a nation's financial management has a profound effect upon that nation's economic condition, and in turn the state of industry and trade is reflected in the condition of the nation's financial system.

Although the Italians had been traditionally familiar with banking and finance, ripening the practices that had come down through centuries of Mediterranean experience, the lack of political unity, as well as the dislocation of some of the world's

principal trade routes away from the Mediterranean from the beginning of the sixteenth to the last third of the nineteenth century, prevented the development of a national system of finance. It was not until after the unification of Italy in 1861 and the opening up of new trade connections with eastern Europe and Asia in the subsequent two score years that the financial organization of Italy, on a national scale, could be achieved.

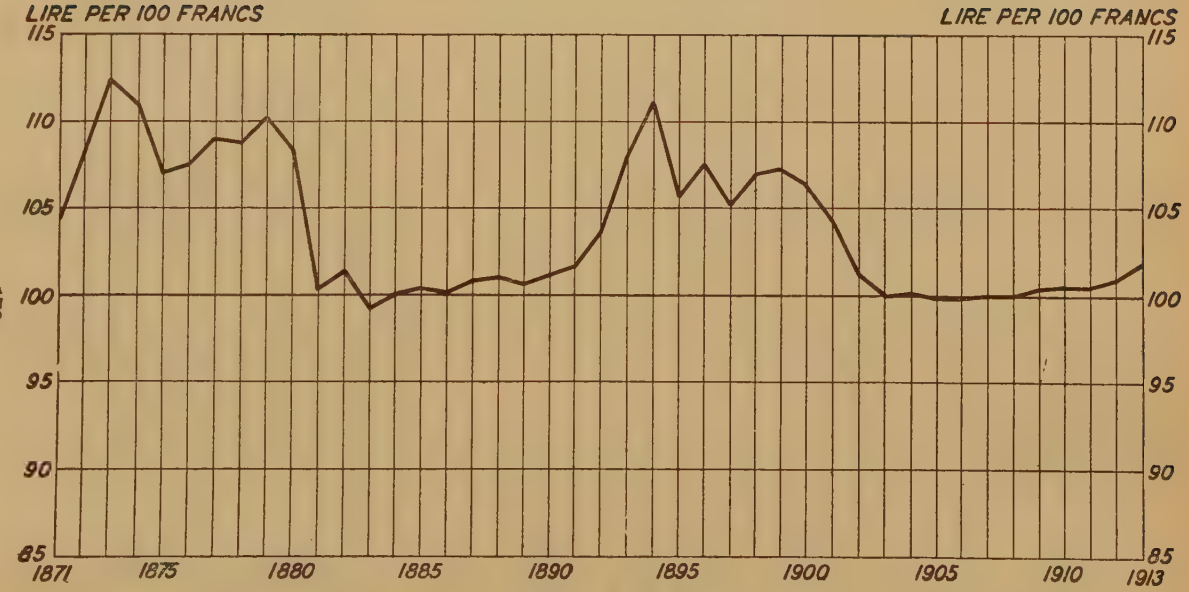
In this chapter, we shall first review Italian banking and currency from the unification of Italy in 1861 to 1914, and then call attention to the disorganization which was wrought by the Great War. We shall close with an indication of what has been done during the post-war years to rehabilitate the currency and banking system, and what, in the year 1926, appeared to be the causes of the exchange instability which was then the subject of so much concern.[1]

I. PRE-WAR HISTORY AND POLICIES

The first quarter century after 1860 may be characterized as a period of currency and banking reorganization long deferred. The creation of a financial structure which would be able to prove responsive and adequate to the varying commercial, agricultural, and later, industrial requirements of the different communities of Italy was destined to

[1] See Appendix F, p. 499, for bibliography and other details.

LIRA EXCHANGE RATES ON PARIS, 1871–1913 *



* *Annuario statistico italiano* of 1919-21.

be a task calling for the display of great patience and much skill.

From the outset of its history, the kingdom found itself laboring under a serious handicap because of its poor credit standing in the financial markets of Europe. It was difficult to procure an adequate reserve with a view to maintain convertibility into gold. The lira was consequently almost continuously under par for more than 20 years. The chart on page 176 shows the fluctuations in the rate of the lira on Paris from 1871 to 1913 inclusive.

Italy suffered for many years from irredeemable paper currency. The war with Austria in 1866 aggravated an already unfavorable financial situation, even though important territorial and political gains were achieved. The treasury found itself obliged to resort to what amounted to an official inflation of the currency for military purposes; and the Banca Nazionale nel Regno d'Italia, the principal bank of issue of the first years of the kingdom, having been required to lend to the government 250 million lire at one and one-half per cent interest, was relieved of the necessity of redeeming these or any other of its notes in circulation. There were five other banks of issue in the country at that time, though the note issues of some of them were not recognized throughout the kingdom. Their notes were now made legal tender, and it was provided that they should be redeemable in the notes of the

LIRA EXCHANGE RATES ON NEW YORK, 1914–1926

national bank. In order to facilitate this process, two-thirds of the gold reserves of these banks were exchanged for notes of the Banca Nazionale. Thus uniformity was introduced into the currency, but none of the issues was redeemable in gold.

The irredeemable currency served to intensify the economic strain of a difficult period. In particular it deterred the placement of foreign capital in Italy, and encouraged the investment of Italian capital abroad rather than at home.

The 15 years following the Austrian war witnessed an almost unbroken period of depression with the lira not infrequently at as great a discount as 20 per cent. Various efforts were made to reform the currency, but the new burdens which were thrust upon the national treasury forced an increase in, rather than a restriction of, the irredeemable currency.

In 1874, the six banks of issue in the new kingdom were directed by law to take over the liability for the notes which the Banca Nazionale had lent to, or issued on behalf of, the treasury. The six banks were to issue up to an aggregate of one billion lire in notes, evidently to be redeemable in gold and silver, the older bank notes being exchangeable at par for these new consortium notes. This complicated arrangement disappeared later when the dissolution of the consortium was directed by the legislature and all the notes it had issued were directly assumed by the state, to be redeemed in

specie upon demand. This bold step (naturally taken with some prudent and legitimate precautions to avoid the necessity for redemption) required a substantial loan, which the national bank had itself to underwrite.[2] At length the credit was raised with which to buy the necessary sums of bullion on the market, so that, in the spring of 1883, the guarantee for the redemption of the paper currency had been completed, becoming effective on April 12 of that year.

The currency stability attained in 1883 lasted less than a decade. For a time the stable currency together with more settled economic conditions throughout the world had a quickening effect upon the economic life of Italy. From 1884 on, Italy's credit standing abroad steadily improved, and substantial investments of foreign capital began to be made in her industries and public securities.

But new difficulties were not long in coming, some proceeding from political crises, others from the effect upon Italian agriculture of formidable competition from North America. Foreign borrowing which exceeded 1,200 million lire between 1886 and 1891, unhappy budget management in the Crispi and the subsequent administrations, disastrous harvests, epidemics, and like obstacles proved too great a strain on the gold lira. The attempt to bal-

[2] With some assistance, however, from two British banks and a Franco-Italian syndicate. The heavy borrowing necessary to carry through this operation left lasting traces on the national debt.

ance the budget by heavy tariff duties served merely to reveal how serious was the situation of the nation's credit. The tariff war with France was particularly serious because so much of the borrowing of the treasury had been done in France; it led to the steady and possibly deliberate depression of Italian securities and exchange in the French money market.

So serious did the situation become that by 1889, the bank notes of the kingdom were no longer redeemable in fact, even though no legislative restriction upon their convertibility existed. Measures had to be taken to prevent the actual exportation of metal currency. In June, 1892, the highest judicial tribunal, sitting at Turin, rendered a decision setting forth that the redemption of notes in metallic currency was no longer a practical possibility and could no longer equitably be exacted in the fulfillment of contracts. The law of May 1, 1866, had declared void the inclusion in contracts of the "gold clause" (the promise to repay in gold); and the effort to abide by this prohibition in a period of *de facto* inconvertibility of the currency after 1892 was a dolorous failure.[3]

Italy passed through a terrific financial crisis in 1893. Inability to support the currency program of the reform of 1882-83 with judicious and well

[3] For details on the history of the gold clause in Italian monetary legislation and commercial law, reference may be made to a recent summary of all the discussion, including Italian jurisprudence, in Nussbaum, *Das Geld,* Tübingen, 1925, p. 173 ff.

planned budgetary and tariff policies, coupled with a world-wide business depression, resulted in a collapse of the Italian banking and currency system. The premium on French exchange rose in 1893 as high as 15 per cent, while Italian treasury bonds were quoted at 72 on the bourse at Paris.

Drastic measures were resorted to in an effort to stave off bankruptcy, one of the first of which had to deal with the actual inconvertibility of the treasury notes. A law of February 21, 1894, contained a quasi-admission of the situation of the currency, making bank notes redeemable in treasury notes at the nominal value of the latter, and redeemable in gold at the rate of exchange current when the transaction should occur. The cash reserves of the banks were taken over by the treasury to the amount of 200 million lire gold, in exchange for which the banks received treasury notes, as well as other compensatory advantages from which they subsequently derived some profit. Measures were taken to bring about the repatriation of Italian coins which had gone abroad (through agreements of the other states in the Latin Monetary Union), and stringent legal restrictions were placed upon the operation of the banks of issue.[4] It took nearly a decade for the cur-

[4] These were now three in number, the Banca Nazionale having become the Banca d'Italia, and having two smaller banks fused with it. Thenceforward, this central bank has served as the principal bank of issue, but, until April, 1926, it shared the issue privilege with the two older institutions, the Banco di Napoli and the Banca di Sicilia. These were originally consolidations

rency to recovery from the effect of this demoralizing experience.

After the turn of the century Italian currency and exchange steadily improved. The Italian treasury devoted its attention to the careful management of currency problems and in particular to the judicious support of Italian exchange. Specie reserves were steadily accumulated, an accumulation made possible by the more favorable foreign trade and financial situation in the early years of the century to which reference has been made in Chapter II. Even the Tripolitan war of 1912 affected the value of Italian currency rather less than might have been expected.

The table on p. 184 shows the reserves of the principal banks of issue for a number of selected years.

It is apparent from this table, and from the chart on page 176, that Italian currency and banking had in the later years before the war been put upon a relatively satisfactory basis. Specie reserves had been built up from less than 20 per cent in 1880 to

of charitable funds and other public foundations; and all their profits go into charitable and like public channels.

By virtue of a royal decree effective July 1, 1926, the reserves of gold securing the note issue of the Banco di Napoli and the Banca di Sicilia were transferred to the Bank of Italy at prices prevailing as of April 30, 1926; that is to say, those reserves, aggregating 355 million lire in gold, ceased to be carried on the books of the two banks at the nominal amounts and paper lire aggregating 1,705 millions were to be paid over to the two banks —an apparent profit of about 1,350 million paper lire for the latter, in consequence of the depreciation of the lira. The notes of the two southern banks are to be retired against new notes of the Bank of Italy, ceasing to be legal tender after June 30, 1927. Concurrently with this consolidation of the note issue privileges, it is anticipated that the capital of the Bank of Italy will be considerably enlarged.

more than 65 per cent in 1913, and the specie reserve against the treasury notes had also become substantial. The combined reserve against bank notes

PRE-WAR BANK NOTE AND TREASURY CIRCULATION *

(In millions of lire)

Year	Banks of Issue			Treasury		
	Bank notes outstanding	Specie reserve	*Reserve as percentage of circulation*	Treasury notes outstanding	Specie reserve	*Reserve as percentage of circulation*
1882.....	732	257	*35*	340	0	*0*
1888.....	1,075	409	*38*	332	0	*0*
1894.....	1,126	513	*45*	399	80	*20*
1900.....	1,139	464	*41*	450	130	*29*
1908.....	1,862	1,311	*70*	436	178	*41*
1913.....	2,284	1,491	*65*	499	117	*23*

* These figures are for December 31 of each year. Prior to 1894, the reserve against treasury notes was in securities.

and treasury notes amounted to approximately 60 per cent. Meanwhile the lira had managed for several years to remain fairly close to its par value in the exchange markets of the world.

II. CURRENCY AND EXCHANGE DURING THE WAR

A great increase in the volume of outstanding currency resulted from both governmental and private borrowing during the war period. The consequent deterioration of the position of the Italian banks of issue and of the Treasury is clearly indicated in the table on p. 185.

The maximum circulation of the three banks of issue, legally fixed at 908 millions, was raised before

the end of 1914 to 1,816 millions. Any issues in excess of this amount were subject to a graduated tax. The official statements of the Bank of Italy have always separated note issues on government account

BANK NOTE AND TREASURY CIRCULATION: 1914-1918 *
(In millions of lire)

Year	Banks of Issue			Treasury		
	Bank notes outstanding	Specie reserve	*Reserve as percentage of circulation*	Treasury notes outstanding	Specie reserve	*Reserve as percentage of circulation*
1914.....	2,936	1.527	*52.0*	657	156	*23.7*
1915.....	3,968	1,492	*37.6*	1,082	155	*14.3*
1916.....	5,012	1,270	*25.3*	1,317	9	*0.7*
1917.....	8,425	1,198	*14.2*	1,748	8	*0.5*
1918.....	11,750	1,166	*9.9*	2.124	5	*0.2*

* The figures are for December 31 of each year. In addition to the gold recorded in the specie reserves, certain other gold belonging to the treasury and the Bank of Italy was sent out of the country. The total thus held abroad rose from 192 million lire at the end of 1915 to 598 millions four years later.

from the circulation for ordinary commercial purposes. Hence it is possible to determine how far the war was financed by direct borrowing from the banks of issue.

The following table shows the extent to which the government borrowed notes from the banks with which to meet operating expenses.

As of December 31	In millions of lire
1914	735
1915	2,069
1916	2,554
1917	5,833
1918	7,166

In view of Italy's restricted monetary resources and the heavy strain to which her banking machinery had more or less continuously in pre-war days been subjected, the Italian banks of issue, during the war, made a comparatively good showing. It is true that the reserve percentages were greatly drawn down, but not much more so, proportionally, than those of the central banks of the other European belligerents. But the monetary effect of the war was profound.

Specie payment was suspended even before Italy entered the war in the spring of 1915. Accordingly the value of the lira, as expressed on the foreign exchanges, began to decline as soon as budgetary and foreign trade deficits occurred. Domestic price levels rose rapidly from a level of 117 in June, 1914, to 470 in December, 1918.[5] The lira was pegged from time to time at different levels, through the use of the proceeds of government loans from Great Britain and the United States. Before the end of the war, the lira had fallen to less than two-thirds of its normal value, rising, however, after the armistice, to nearly 16 cents. In 1919, foreign support of the exchange ceased, and the lira fell in the course of a little more than a year to less than six cents. The chart on page 178 shows the decline in the exchange value of the lira from the beginning of 1924 to the middle of the year 1926.

[5] For indices of Italian prices, both internal and external, see Appendix F, pp. 509-11.

III. POST-WAR CURRENCY AND EXCHANGE PROBLEMS

Apprehension on the part of administrators, financiers, and economists over currency problems began to appear soon after the signing of the Treaty of Versailles. In Italy, as in other countries, there were sharp differences of opinion as to good public policy. On the one side were the "deflationists," who championed a return as rapidly as possible to the gold standard at the former par value of 19.3 cents; opposed were manufacturers and traders who wished to see a new value for the lira legally fixed at some lower level. No official policy was, however, formulated, and the lira was allowed to drift. After falling precipitately in 1919-1920, the lira oscillated nervously until the winter of 1921-22. Then, through 1922, 1923, and 1924, it fluctuated within relatively narrow limits and seemed to have achieved something like stability. But the winter of 1924-25 witnessed a new decline which continued until mid-summer of 1926, the ground lost being recovered in the substantial rise that followed the measures of the autumn.

The table on p. 188 shows the condition of the banks of issue and of the treasury notes outstanding, year by year, since the close of the war.

The government notes remained wholly uncovered, owing in the main to the transfer of Italy's gold to Great Britain, and the same reason must be

advanced for the slenderness of the reserves of the issue banks. On the whole, the holding of the levels shown for the total paper circulation and for the specie actually within Italy was an achievement, if one considers what was happening elsewhere in Europe.[6]

BANK NOTE AND TREASURY CIRCULATION: 1919-1926

(In millions of lire)

Year	Banks of Issue			Treasury		
	Bank notes outstanding	Specie reserves	*Reserve as a percentage of circulation*	Treasury notes outstanding	Specie reserves	*Reserve as a percentage of circulation*
1919.....	16,281	1,152	*7.1*	2,270	4	*0.2*
1920.....	19,732	1,174	*5.9*	2,268	2	*0.1*
1921.....	19,209	1,206	*6.3*	2,267	1	*0.0*
1922.....	18,012	1,241	*6.3*	2,267	0	*0.0*
1923.....	17,247	1,243	*7.2*	2,428	0	*0.0*
1924.....	18,114	1,256	*6.9*	2,400	0	*0.0*
1925.....	19,350	1,258	*6.5*	2,100	0	*0.0*
1926.....	19,681	1,261	*6.4*	2,100	0	*0.0*

* The figures are for December 31 of each year, except in the case of 1926, for which the date is June 20. As in the case of the table on p. 185, gold deposited abroad does not appear among the reserves.

The advances, statutory and extraordinary, made by the banks of issue to the treasury have shown

[6] The great transactions connected with the Consortium for Loans on Industrial Securities, which is discussed in detail in Appendix F, necessarily held the circulation at a higher level than would otherwise have been the case.

the following fluctuations in the years since the war, the shrinkage in 1920-21 being particularly striking.

December 31	Million Lire
1919	10,630
1920	10,743
1921	8,505
1922	8,077
1923	7,754
1924	7,244
1925	7,062
July 31	
1926	6,730

The advances to the government had been steadily though slowly reduced since the beginning of the Fascist régime, but it was not until 1926 that a definite program of liquidating this indebtedness and of placing the whole currency system upon a sounder basis was inaugurated. Before this program is discussed we feel it desirable to indicate the movements of commodity prices.

The table on p. 190 indicates the movement of wholesale and retail prices since the beginning of the war.

Both wholesale and retail prices rose rapidly during the war years, though retail prices showed a substantial lag. After the peak was reached in 1920 wholesale prices declined for two years, but since 1922 have been moving steadily upward. From the summer of 1924 to the summer of 1926, the advance was rapid, with both wholesale and retail prices

reaching levels substantially above those of 1920. During these later years the lag in retail prices has been considerably reduced. In the summer of 1926 the upward movement of commodity prices was checked in consequence of the general reaction which accompanied the arrest in the decline of the lira.

Year	Wholesale Prices (Bachi)	Retail Prices (General Labor Office)
1913	100	100
1914	95	94
1915	133	114
1916	200	125
1917	306	162
1918	409	239
1919	366	...
1920	624	452
1921	578	501
1922	562	527
1923	575	518
1924	585	538
1925	690	605
1926[a]	700	644

[a] First six months.

The fluctuations in commodity prices have been intimately related to the fluctuations in exchange rates—related as both cause and effect. When the lira has declined prices have risen, and when the exchange has risen, commodity prices have tended to fall. There is, however, always a lag in the adjustment of internal prices to exchange fluctuations, and it is this lag which makes a country of depreciating exchanges a good purchasing market for foreigners and thus stimulates foreign trade.

The instability of the lira since the end of 1924 has been the subject of much controversy. The decline of the lira in 1925 came as a surprise for it was generally believed that Italian exchange had been brought pretty well under control. The extent of the decline was, moreover, not foreseen when it began, and merchants as well as speculators postponed covering their commitments through the winter and spring of 1924-25. The last week of June, 1925 witnessed a miniature panic which led to a widespread liquidation of government securities and other holdings.

One explanation of the decline is that in the winter of 1924 and 1925 the adverse trade balance was unusually large. Another explanation is that it was due to the gradual development of political uncertainty in the country, with the resultant "flight from the lira"—Italian savings being converted into foreign currencies or properties. Still another explanation is that there were at the time very large foreign holdings of Italian currency—estimated at all the way from 5 to 8 billion lire,[7] which made it possible for foreign interests to exert pressure upon the Italian exchange and hence upon Italian domestic and foreign policy.

Finally, the decline of the exchange was occasionally charged up to the activities of speculators whose sole interest lay in making money out of cur-

[7] See Appendix A, pp. 320, 325. For references to discussions of exchange problems, see Appendix F, p. 506 ff.

rency manipulations. The Minister of Finance attributed the crisis more to speculative manœuvers than to any other cause, and instituted thoroughgoing restrictions on security market operations. But the Minister had not reckoned with the full strength of the speculative fever that pervaded all classes in Italy in 1924-25. Dissatisfaction with his policy became so clamorous that its further enforcement called for measures which the administration was apparently not prepared to take; and consequently the Minister resigned in the early summer of 1925.

The new Minister of Finance adhered to the same policy of keeping money rates high and of restricting in every possible way the volume of speculation. Late in August, 1925, he issued a series of regulations governing exchange transactions which were quite as severe as anything which the war had produced.[8] New open credits in lire for foreigners were forbidden, as well as the discount of exchange drawn by foreign firms on their lira deposits in Italy. The purchase of foreign bills was forbidden except when the price in lire should be immediately paid in full. Detailed reports from the banks to the Ministry of Finance were exacted, particularly with a view to determine whether proceeds of credits abroad would henceforth be disposed of at prices exceeding their cost. This was the financial régime under which

[8] *Commercial and Financial Chronicle,* September 12, 1925, p. 1,300.

Italy passed the winter of 1925-26, and the spring of 1926.[9]

But thorough-going as was the revival in 1925 of the war-time powers of the Exchange Institute, the situation did not lend itself to the same effectiveness of control as during the war, for there was now no corresponding governmental control in the countries whence Italy imports her supplies, and the Italian government was no longer the principal importer of foreign goods. Perhaps it is true that the exportation of capital could not be carried on as easily as before to the extent that these regulations might be enforced.[10]

When the proceeds of the New York loan of November, 1925, became available, the government was in a position to maintain a firm grip on exchange for some months. Then the British general strike of May, 1926, led to the precipitate liquidation of Continental currency holdings, including lire, in both London and New York.

[9] Various subsidiary measures were taken which are not cited here in detail, such as the offering of 3.5 per cent treasury notes *issued in sterling or in dollars* in return for foreign bills, which the treasury wanted to acquire in order to build up the holdings of the Exchange Institute. This original plan was almost immediately copied by the French Finance Minister. It had little success in either country, as holders of foreign currency could not be tempted by low interest offers to overcome their fear of depreciation of their domestic currency.

[10] The Industrial Federation and the Association of Corporations issued, at the beginning of August, 1925, a formal statement urging the industrial community to support any government action intended to prevent any further fall in the exchange value of the lira.

The effort to hold up the lira in the 12 months that followed the sharp decline of the spring of 1925 not only cost the government a good deal, but it involved exchange operations of very great magnitude. Speaking in the Senate in June, 1926, the Minister of Finance indicated that about 80 million lire, paper, had been "lost" by the treasury in exchange operations between July 1, 1925, and the first part of June, 1926. By "loss" was implied simply the difference between the amount expended in the course of purchasing, and the amount probably realizable (at the moment the estimate of loss was ventured) by selling the accumulated lire on the open market. An ingenious conjecture was soon after put forward [11] that the amount thus "lost" would hardly be more than 1 per cent of the value of the total volume of exchange transactions engaged in by the Minister of Finance. If 80 millions, therefore, represented the loss, there would be indicated a total volume of transactions equal to approximately one-fifth of the value of Italy's total foreign trade during 1925. Other estimates run as high as 30 billions for the 12 months ended June 30, 1926. Certainly, the government's transactions were large, and during May, 1926, occasionally ran into many hundreds of million lire a day.

Notwithstanding the restrictive measures taken in 1925 and the support provided for exchange

[11] By the Money Market Editor of the *Statist*, June 19, 1926, p. 1,069.

through the negotiation of debt settlements, the procuring of foreign credits, and the government's defensive action, the lira continued to decline through the summer of 1926. While less spectacular than the decline of the currencies of France and Belgium, the trend of the lira was persistently downward after the autumn of 1924. Moreover, there were certain characteristics that link up the downward tendency with the prevalence of borrowing abroad. The most precipitate declines in exchange values have usually occurred in the late spring of the succeeding years. The monthly average (lire to the dollar) fell from 24.61 in May, 1925, to 26.10 in June, 1925, and from 25.97 to 27.33 in the corresponding months of 1926. These are the months when settlements for winter purchases accumulate; and in them, also, taxation requirements increase the demand for funds and hasten realizations.

The main cause of the steady shrinkage in the international purchasing power of Italy's currency appears, in the last analysis, to have been the volume of borrowing to which we called attention at the end of Chapter II. Neither the budget nor the international trade and financial situation since 1922 would have justified a decline in the value of the lira. If there were no selling of foreign holdings and no speculative operations, the lira ought to have been quite as stable in 1925 as during 1923 and 1924. The uncovered debits have been mounting and through whatever channels they may be transformed

into holdings of lire, they exert a pressure upon Italian currency which necessarily has grown more effective each year. These credits in the name, and under the control, of foreigners are liable at any time to be thrown into the market, under the influence of a diminished confidence in the future of Italy, or because of like "psychological impulses."

In the late summer of 1926 the long-awaited Fascist program of currency reform was launched. On September 1, 1926, it was announced that a number of measures would be taken to enhance the value of the lira and hold it firmly at the highest level reasonably attainable.[12] The first of these measures was the repayment of about 40 per cent of the government's advances from the banks of issue. These advances, which had shrunk to some 6,730 millions by July 31, were, of course, by this time all on account of the Bank of Italy, the sole bank of issue of the country since July 1, 1926. The full proceeds of the dollar loan of November 18, 1925 were transferred by the government to the Bank of Italy, which could thereupon reduce the government's debt to the bank by 2.5 billion lire. The balance of 4.2 billions was to be liquidated in eight or nine annual instalments of 500 millions each to be provided from budgetary savings; and the first of these reductions was to be effected in the fiscal

[12] For details of the decree, see Appendix F, p. 508. The government had apparently quite secured its position in the exchange market before announcing its program, which was successfully kept secret until published.

year 1926-27. Under this schedule, the advances of the Bank of Italy to the Treasury will have been entirely repaid by 1935.

It is to be noted that this program does not involve the contraction of the currency, which, as we have pointed out in Chapter II and in this Chapter, has been hardly adequate for normal requirements in the years 1924-1926. These measures contemplated, not the contraction of the currency, but its strengthening, by substituting gold or its equivalent for public securities of the Italian State as the basis of a large proportion of the fiduciary currency. The reduction of the internal debt of the government was another salutary objective of the reform.

The second important measure aimed at the reduction of the paper currency was the retirement, without replacement, of 400 millions of the treasury notes which have for a decade provided the subsidiary currency of Italy,—namely, the 25 lira notes, and the calling in, after October, 1926, of the 5 and 10 lira notes, aggregating, supposedly, some 1.7 billions.[13] Silver coins were to be issued at once in replacement of the 5 and 10 lira notes. The silver was to be derived from the recoinage of the old one and two lira coins withdrawn in 1917.

Another measure long awaited was the provision

[13] The aggregate of these notes actually in existence is probably a substantial percentage less than this theoretical maximum of 2,100 millions. It has been the experience of other countries, when calling in fractional paper currency, that a large volume of notes literally has been lost or worn out.

for final liquidation by December, 1926, of the Consortium for Loans on Industrial Securities. The securities against which notes had been issued were to be transferred to the ordinary portfolio of the Bank of Italy; and bonds acquired by the consortium with its earnings were to be retired. Again, the quantity of currency was not to be affected appreciably.

Finally, it was provided that the Bank of Italy's notes in excess of 8 billions should bear a special tax of 1⅓ times the discount rate. That Bank, moreover, was given independent supervisory powers over all Italian banks, which are now required to build up their reserves until they represent 40 per cent of their capital, respectively.

Thus, if this program is successful, both the government's outstanding non-interest-bearing treasury notes and the advances from the banks will be rapidly reduced. Its success will obviously depend upon the ability of the government to obtain year after year a budgetary surplus of considerable dimensions. We shall return to this matter in Chapter X, wherein also, we shall consider the problems involved in effecting a return to the gold standard and a complete stabilization of the currency. Meanwhile, we turn at this point to a discussion of the foreign debt agreements reached by Italy with the United States and Great Britain.

CHAPTER IX

THE DEBT SETTLEMENTS

ITALY's public indebtedness to the governments of Great Britain and the United States was transformed from a mass of demand obligations bearing 5 per cent interest into two long-term debts at low rates of interest in the winter of 1925-26. In the process of funding, the totals of original loans plus interest since 1919 were cut down to new capital sums substantially lower, and the interest rates agreed upon for the future were far below those originally stipulated. The growing shadow of the unpaid interest in the years 1920-1925 had not only obscured the future of Italian public finance but had also greatly unsettled the processes of economic readjustment begun at the end of the war.

The two agreements were concluded within eight weeks of each other, at Washington on November 14, 1925, and at London on January 27, 1926. There is more than a coincidence in the practically simultaneous conclusion of these agreements which had been pending since the end of the war. The decision once for all to get the debt settlements out of the way was taken by the Fascist administration

in the middle of the year 1925, when it reached the conclusion that there could be no restoration of the domestic and foreign stability of the currency until the future interest and sinking fund charges on the foreign public debt were known definitely and until also the door to public and private credits in foreign money markets had been opened through the acceptance, without further demurrer, of the debt policies laid down by the governments of the United States and Great Britain. Thus the motives which inspired the decision to make the best possible settlements of the two debts may be described as fundamentally economic in character, in that the amelioration of domestic, financial, commercial, industrial, and even social conditions was uppermost in the minds of those responsible for public policy.

There were, however, other considerations which might be broadly described as political in character. As things had shaped themselves after the Treaty of Versailles, it was early made quite clear that discussion regarding the ultimate disposal of the international public debt arising out of the war could not occupy any conspicuous rôle until the discussions regarding the German indemnities should have retired from the center of the stage. This became possible only in mid-summer of 1924. In point of fact, the early fall of 1924 witnessed the gradual shift of focus, and in the winter of 1924-25, there were a good many developments which foreshadowed the decisive stage of the debt negotiations of those

countries whose obligations to the two principal creditors were still unfunded.[1]

I. THE AGREEMENT WITH THE UNITED STATES

In the winter of 1924-25, after a rather gratifying period of relative stability of the currency, the lira began to give way just when the budget was being balanced for the first time in a dozen years. As was indicated in Chapter VIII, whatever pressure may have been exerted to bring about this break, it is difficult not to sense a connection between the exchange crisis of the late spring of 1925 and the debt negotiations. As soon as the credit of $50,000,000 was granted to the Bank of Italy in June, 1925, by a New York banking house, the crisis came under control; and formal negotiations between the Italian and United States governments began. It was now generally supposed that the stabilization of the currency upon which was predicated the reopening (or the wider opening) of foreign money markets to Italian industry, itself called for public borrowing on a large scale; and this borrowing could not take place unless and until the debt to the United States should be consolidated. The Minister of Finance, one of whose cardinal

[1] For details on the antecedents and chronology of Italy's negotiations looking to the funding of public foreign debt, see Appendix C, p. 382 ff. The entire subject of the war debts is discussed in Moulton, H. G., and Pasvolsky, Leo, *World War Debt Settlements* (Investigations in International Economic Reconstruction, Institute of Economics, Washington), 1926.

policies has been the avoidance of borrowing abroad, resigned.

His successor rapidly prosecuted the negotiations with the United States, proceeding himself to the American capital at the end of October, 1925. The formal discussions between the two debt commissions, which lasted from November 2 to 12, began with the submission of a full statement of Italy's economic position, prepared by Italian scholars and public officials.[2] After discussion of the general economic situation of Italy, and reaffirmation of the policy of securing payment "according to capacity" on the part of the responsible representatives of the United States, an arrangement was sought which it was thought would enable the debt to be paid without too much difficulty.

Agreement was at length reached which provided for the payment of $2,042,000,000 of principal and $365,000,000 of interest in 62 years. The interest payments begin after five years, and at the rate of one-eighth of 1 per cent. The payments of principal begin at once, and amount during the first five years to $5,000,000 annually, subsequently jumping to $12,000,000 and steadily mounting to the maximum figures of the last years of the period.[3] In determining the present value of future payments

[2] As is abundantly indicated throughout this volume, the writer has kindly been afforded access to this collection of memoranda, and has found it of much value.

[3] The text of the Agreement signed on November 14, 1925, appears at p. 413 ff.

relating to war debts, the treasury of the United States has regularly proceeded on a basis of 4.25 per cent; the present value of the Italian schedule would accordingly be about 535 million dollars.

In due course the agreement was submitted to the national legislatures of the United States and of Italy. Ratification was soon effected in Italy. But in the Congress of the United States, desultory and inconclusive discussions were prolonged in both houses, a great deal of hostility to ratification being attributable to considerations that had nothing to do with the economic basis of the agreement. At length, the legislation was enacted, and the agreement became law on April 28, 1926.[4]

II. THE AGREEMENT WITH GREAT BRITAIN

After the signing of the agreement at Washington, negotiations for the application of the principle of proportional and equitable treatment were promptly opened with Great Britain on January 14, 1926, terminating 13 days later with a formal agreement.[5] The British Government undertook to return the 22.2 million pounds deposited with the Bank of England by the Italian treasury and the Bank of Italy, but in small instalments; 8 million pounds will have been repaid to Italy by 1932, and the balance between 1932 and 1987. As to the liquidation of the British credits to Italy, the agreement

[4] Public Act No. 155 of the Sixty-ninth Congress.
[5] The text appears on p. 420 ff.

binds Italy to heavy initial payments. Her first payment was one of 2 million pounds for the second half of the fiscal year 1925-26; thereafter she is required to pay 4 million pounds annually in the fiscal years 1926-27 and 1927-28, and 4¼ millions for the four years ending March 31, 1932. Then 4½ million pounds are to be paid by Italy each year for 55 years, while in the first half of the fiscal year 1987-88 the payment will be 2,250,000 pounds. In all, Italy is called upon to pay 276.7 million pounds to Great Britain.

When the terms of the Italo-British settlement were published a controversy of minor proportions arose as to its burdensomeness to Italy in comparison with the Washington agreement. The chief foci of the discussion were the London press, the House of Commons, and the United States Congress. Of course, those who engaged in the discussion with other motives than political contentiousness were obliged to take one side or the other—according as their experience of world affairs or their inherent faith in the sanctity of secular covenants prevailed. The whole thing has been put in a nutshell in the following paragraph from the speech of the Chancellor of the Exchequer during the debate on this subject in the House of Commons on March 24, 1926, from which other extracts are included in Appendix C.

But how does the Anglo-Italian settlement compare with the American-Italian settlement? If you look at

it as a purely arithmetical calculation, there is no doubt that Italy is paying what by present values is proportionately a much smaller sum than she has agreed to pay to the United States. But you must bring into these matters other considerations. The payment which Italy is to make to the United States begins by being a very small sum indeed, and for many years the payments remain on a very low level. It is not until 20 years have passed that the aggregate payments which they will have made to the United States become bigger than the figure which they will have paid to us, making allowances for the *pro rata* calculations. When you get to the sixtieth year, immense payments will be made by Italy, amounting, I think, to £16,000,000 in a single year, to the United States. It just depends what your general view is and whether you take the long view of all these war debt agreements and arrangements. If you are quite sure that three generations hence these immense payments will be made by the Italian people and by other debtors all over Europe to the United States, then, of course, it is undoubted that our bargain is not so favorable as is the one which the United States have affected. If, on the other hand, you attach more importance to the payments which are to be made in the first 20 years, then we may say that we have fully maintained the principle of *pari passu.*

What really counts, in other words, is the fact that up to March, 1931, Great Britain will have received about 22¾ million pounds, and up to June, 1931, the United States will have received $37,000,000, or less than one-third of the total paid

to Great Britain. The Chancellor was adamantine in his insistence upon his schedule of heavy payments at the outset. In his official statement [6] after the signing of the agreement, he declared it to be "much more favorable in the early years" (than the Italo-American agreement).

How did Italian opinion take the two settlements? Apparently with the sort of satisfaction that is felt when a long period of suspense comes to an end without the worst having happened. The Italian press at the outset reflected the official opinion of the administration that the settlement was an excellent thing in its way.[7] The silver lining of the cloud, however, was not revealed to their readers by many of them so clearly as by the *Osservatore Romano* which expressed gratification that the way was now clear for the investment of capital from the United States in Italy. But a most compact and concise formulation of the basic conviction prevailing among the majority of the Italian people on this subject is to be found in the following sentences from Professor Mortara's yearbook.[8]

With respect to these agreements, we recognize the fact that our negotiators have obtained the most favor-

[6] Quoted, among other places, in the *Survey No. 10* of the *Reference Service on International Affairs*, Paris, 1926.

[7] In the *London Times* of November 14, 1925, and the days following thereafter, and in the *Economic Review*, London, December 11, 1925, p. 510, will be found extracts from Italian press comment on the settlement with the United States.

[8] *Prospettive economiche*, 1926, p. 429.

able conditions which it was possible to expect, in view of the concept of the purely commercial character of the debts prevailing among the creditor countries. . . . According to the agreements, Italy will return more than she received; and since what she received was not productively invested, but consumed in arms, munitions, and other supplies indispensable to victory, it is out of place to speak of any generosity on the part of the creditors.

There would be little value in detailed discussion of the two issues involved in the foregoing quotations, regarding the relative burdensomeness of the two agreements, and the extent to which the agreement with the United States, at least, can be shown to represent a policy of reasonable considerateness, not to say generosity, towards Italy. On this latter point, any expression of opinion must be guided by one's convictions on the whole subject of the international debts; and there is no room here for any statement of these. As to the relative burdensomeness of the two schedules of payments, the writer is quite of the same view as the British Chancellor of the Exchequer. The payments to Great Britain are the heavier in the first half dozen years—the years of transition, presumably, from a depreciated to a stable currency. This is what has real significance for Italy, and not the percentages of reduction from the nominal total value of the two debts as they stood when the respective negotiations began. Some writers have made a great

point of the fact that the Italian debt to Great Britain has been heavily cut down from the total of nearly 600 million pounds sterling; but in so doing they failed to put the proper stress upon the fact that more than half of this debt to Great Britain consisted of compounded interest. The United States was not only not compounding interest from the time the advances to the Italian treasury came to an end, but the full benefit of interest reduction to other countries in calculating the amount due from 1920 until 1925 was granted by the treasury at Washington to Italy.

If, therefore, all question of generosity be put to one side, and inquiry be directed solely to a comparison of the demands made upon the Italian people in giving effect to the two agreements during the generation now in course, the conclusion seems inescapable that the agreement with the United States is likely to be substantially less onerous than the Anglo-Italian arrangement. On the other hand, it is to be borne in mind that the complex results of agreements as far-reaching as these can hardly be appraised without taking into account commercial factors and other international economic relations. The ability of Italy to maintain large-scale trade relations with her creditors must be taken into account in weighing the ultimate burdensomeness of her obligations to the government of Great Britain and the United States. Both creditors are now substantially on a protec-

tionist basis so far as relates to Italian export trade, but the requirements of Great Britain (or more broadly, of the British Empire) are such that despite protectionist policies, she is likely *to need* to carry on a wider variety of substantial commercial relations with Italy than will be the case with the United States. But naturally these considerations involving trade, immigration policy, and the like, transcend widely the purely financial characteristics of the two agreements, and consequently they belong rather in the summary portions of the following chapters than in the present discussion.

III. DEBT AGREEMENTS AND REPARATION PAYMENTS

Emphasis was placed upon the close correspondence between Italy's debt payments and her expected receipts on reparation account. The Minister of Finance proceeded at once to stress the fact that the "present value" of the capital sums to be paid under the two agreements aggregates 4,250 million gold lire, and the "present value" of the Italian share in the German reparation indemnities amounts to 4,300 million gold lire.[9] He also permitted the implication to go uncontradicted that Italy's intention to fulfil her obligations would be as firm as her expectation that others should fulfil theirs.

Estimates of Italy's burden for the initial years

[9] On these calculations of "present values" see Appendix C, pp. 402-3.

impress one with the fact that the payments will rapidly become a major factor in Italy's international accounts.[10] From the second year on, the two sets of payments will represent approximately 3 per cent of the aggregate treasury receipts (at the 1925-26 average value of the lira); and the percentage will doubtless increase while the agreements continue in effect. In other words, a steadily larger surplus of revenue over expenditure must be developed, either through an increase in revenue relative to expenditure, or through an actual reduction in expenditure with no substantial change in revenue.

One other aspect of the relation between debt repayment and reparation receipts must be mentioned at this place. In Chapter IV, we presented the story of the Italian national budget in recent years, closing our survey with the state of the public finances and the yield and significance of taxation in the fiscal year 1925-26. But in point of fact, the conclusion of the agreements with the governments of the United States and Great Britain has resulted in important changes even of a structural character in the conduct of the nation's finances. In the late winter of 1925-26, a special fund was created as a sort of sinking fund into which all receipts on reparation account were to be paid and from which all disbursements under the funding agreements of November 14, 1925, and

[10] See p. 403 ff.

January 27, 1926, should be made. The creation of this special fund quite apart from the usual budget accounts is, in a sense, reminiscent of the recoverable budget in France just after the war, although to be sure the Italian government has solemnly engaged to charge up no other outlays to this account than those strictly relating to the transactions growing out of the war, and this engagement is likely to be observed.

In consequence of this change, the Minister of Finance was able to suppress from the revenue and expenditure accounts the amount set aside to cover interest on the war debt. We are referring now to the budget of assessable and collectible revenue and treasury commitments, the one which appears as the upper table on p. 77. From the very beginning of the war, the Italian government had been carrying an interest item on that portion of the foreign debt that was owed to Great Britain year after year in the accountancy budget, in consequence of the arrangements whereby interest had been compounded from the beginning of the British credits. By suppressing this commitment in the regular budget and transferring the actual cash receipts under German treaty obligations to the newly created sinking fund, the Minister of Finance was able to show a larger apparent surplus in the budget of revenue and expenditure than would have been the case if the aggregate obligations and resources of the treasury had continued to be shown

in unified form.[11] It may be remarked in passing that the establishment of a special office to receive all payments from Germany and to disburse all payments under the funding agreements gives added point to the frequently manifested determination of the Italian authorities to keep these two sets of operations closely linked. There is, however, one less favorable aspect of the creation of this independent set of accounts, namely, that it tends to rob the Italian budget system of its hard-won unity, and to develop a twilight fiscal zone wherein unfavorable results may conceivably find temporary shelter.

The fiscal and trade problems involved in meeting Italy's foreign obligations for the first years will be discussed in the following chapter. The problems that will arise over the next generation in connection with these settlements require to be taken up separately.

[11] Reference is made to the figures for 1925-26 in the upper table on p. 77. Henceforth, the autonomous account of reparation receipts and foreign debt service payments will not affect the budget unless the Treasury has to provide for some shortage, or to receive some surplus of reparation receipts over debt payments. In this connection, see p. 403.

CHAPTER X

THE PROSPECT FOR STABILIZATION

We have been reviewing, in Chapters II to VIII, various aspects of Italy's economic system. In turn, we have considered the history and the present status of the international accounts, of the budget, of agriculture and industry, of population and emigration, and of currency and exchange. It now remains to draw together the threads of the discussion and to appraise the economic situation as a whole, both at the moment and as it is likely to be in the near future. The ability of Italy to maintain financial and economic equilibrium during the next few years, while engaged in reorganizing her currency and price structure, and in initiating the program of liquidating the foreign public debt, must be gauged before we venture upon a discussion of these problems as they will present themselves over a longer period of years.

The striking feature of Italy's economic life during the last few years has been the development of extraordinary industrial activity. Bustling prosperity and the accompanying expansion of industry

have led many observers to contend that Italy has at last found herself industrially, and that steady and rapid progress is now assured. Such observations, however, quite overlook the fact that Italy's prosperity, like that of other European countries since the war, has been built on an insecure foundation. The shrinkage in the international purchasing power of the lira regularly required a certain length of time to be reflected in a shrinkage of equal proportions in its domestic purchasing power. This lag in the adjustment of internal price levels for materials and labor to the levels of selling prices abroad stimulated export trade. At the same time rising prices, together with the general buoyancy of spirit that attended the successful institution of the Fascist régime, stimulated all phases of domestic industry and trade. Agricultural production, for its part, had also been large, but this has been due to the exceptional harvests of 1923 and 1925, rather than to price and psychological factors to which it is less responsive than are other forms of production.

But the Italian government is now practically committed to a program of exchange stabilization. The currency reforms announced in September, 1926, were preliminary, of course, to the restoration of the gold standard and the improvement of the quality of credit currency. If this effort is successful, the recent activity of trade will tend to give way to a period of severe depression, the price mal-

adjustment heretofore stimulating the import trade ceasing at last to have effect.

A period of readjustment accompanied by domestic price changes and a loss of foreign markets has been clearly foreseen by the Fascist administration. The nation has been exhorted to regard this new era of hardship as a sort of national trial, and the symbolism of battle again enters into the language of leaders of the government. The "defense of the lira," much more even than "the battle of the grain," becomes a call for loyalty to the ideal of national economic independence. One paragraph from an official statement is worth producing:

> The laboring class will suffer from these measures, but we feel certain that all classes will support the government. . . . Let us not forget that Italy is, above everything, a nation of the middle classes and that the government has to consider that class first even if, in time of crisis, the rich and the proletariat must suffer.[1]

The period of prosperity of recent years has also had a marked effect upon the fiscal situation. The large volume of business has resulted in a large yield in the class of indirect taxes, and the relatively large and steady incomes that have prevailed since 1923 have substantially increased the returns

[1] Statement of Under-Secretary Grandi, September 2, 1926, as reported in *Corriere d'America* of New York, September 4.

from direct taxation. Widespread prosperity and full employment have materially lessened the government's outlays in the form of relief grants and subsidies. A period of readjustment and depression will thus serve at once to reduce revenues and increase expenditures.

The foreign exchanges, the international accounts, and the fiscal situation are all closely interrelated factors. We have just seen that a moderately depreciating currency has—for a time at least—a stimulating effect upon industry and trade and, in turn, upon the state of the government's budget. We have also seen that a stabilization of the currency would tend to have adverse effects both upon the foreign trade situation and the government budget. Nevertheless, exchange stabilization is an absolute essential to a permanently sound financial and economic situation. For, if the currency is allowed to drift, in time the entire financial and business structure will be undermined and the whole situation will get completely out of control, as has previously been the case in numerous European countries. Accordingly, the decision to effect, as soon as possible, a stabilization of the currency is undoubtedly the wise alternative, difficult though the period of readjustment may prove to be.

Not only does a fluctuating exchange affect both the trade and the budget situation, but the budget and the trade situation also affect the exchanges.

These various agencies, or parts of the economic organism, are closely interacting in their workings. A fall of the exchange may be due either to an unbalanced budget or to an unbalanced foreign trade and financial situation. In the early years following the war, it was due, in the case of Italy, to both factors acting in conjunction. The decline in 1925 and 1926 appears, as we have seen, to have been due chiefly to the international rather than to the budget situation, and particularly to the existence of a large volume of unfunded obligations held in the hands of foreigners. In view of the interaction of these factors, is a program of exchange stabilization at the present time feasible?

It is impossible to answer this question with assurance, but it may be said that there is at least a reasonable chance that it can be successfully accomplished. The budget has shown this year a moderate surplus and, given a continuation of stable government, it is improbable that a deficit of serious proportions will occur in the near future. This statement is made with due regard to the fact that the limit of taxable capacity has practically been reached. It may be recalled that taxation has been absorbing approximately one-fifth of the relatively small national income. The budget surplus this year amounted to nearly a billion and a half lire, and a depression might conceivably result in a deficit of equal size. A deficit of even this amount would not, however, be unmanageable so long as

the government's recently attained favorable credit position remains unimpaired.

It should be pointed out, however, that even a moderate deficit would prevent or undo the carrying out of the program designed to retire the outstanding treasury notes and the advances from the Bank of Italy. In view of the slender budget surplus now existing, and the prospect of a less favorable fiscal situation during the period of transition, it is indeed doubtful whether the program for reducing the volume of outstanding treasury and bank notes can be realized. Even so, it remains true that the budget situation is not so unfavorable as to warrant the belief that budget deficits will result in a breakdown of the exchanges.

A much more serious menace to exchange stabilization comes from the prospect of a substantial deficit in the international trade and service accounts during the period of transition. We called attention at the end of Chapter II to the trend of import and export trade in 1926. Not only are the effects of exchange stabilization upon export trade and even upon some of the invisible earnings pronounced, but they will continue to be so for no little time. The experience of England and Germany, of Czechoslovakia and Austria, and of other countries, indicates that trade recovery following currency stabilization is a painfully slow process.

But, difficult as the international economic situation may be, it is still possible that it may be

weathered, during a transition period, by means of foreign credits. If foreign credits in ample amount are placed at the disposal of Italy, the exchange may be supported even though there may be a substantial deficit in the normal international trade and financial accounts. The chief danger lies in the possibility that severe unemployment, business failures and liquidations, and other consequences attending the readjustment of internal prices might produce such a state of depression—psychological as well as actual—as to lead foreigners to throw their holdings of Italian currency upon the exchange market and also to induce the flight of capital from Italy. Given political stability, there is reason to believe, however, that a period of depression of some duration might be traversed without another breakdown of the exchanges.

But the complete restoration of the gold standard will not be possible unless the lira can again be made redeemable in gold at some fixed ratio. Is the gold supply of the country adequate for this purpose? The answer appears to be that if large exports of gold can be prevented during the readjustment period, through the employment of foreign credits, the gold supply will prove reasonably adequate. While the ratio of gold to bank and treasury notes was around 6 per cent in the summer of 1926, if the exchange were stabilized at something like four cents—which would mean that paper lire would be exchanged for gold at the ratio of about

five to one—the gold reserve would actually be the equivalent of about 30 per cent.[2] The history of efforts to resume specie payments in various countries and at different periods indicates that, given credit support for emergency purposes, such a gold reserve might suffice to permit a gradual resumption of specie payments and a restoration of the gold standard.

In conclusion, then, the problem of effecting and maintaining exchange stability is not principally one pertaining to the adequacy of the gold supply. The real difficulties are to be found in connection with the condition of the budget, and particularly that of the international trade and financial accounts. But, delicate as the budget and trade situation is, so far as the immediate future is concerned it would appear that there is a reasonable prospect that, with the aid of emergency foreign credits, a stabilization program could be carried out successfully. In this connection, a brief statement with reference to recent foreign borrowing will be useful.

As we have indicated elsewhere, a temporary credit of $50,000,000 was secured by Italy from private banking interests in June, 1925. As soon as the debt-funding negotiations were concluded, a long-term loan of $100,000,000 was floated through the same channels. The fact that the loan was

[2] In making this estimate, the 419 millions of gold lire deposited in London are not included as a part of the reserve. See p. 185.

issued as of November 18, 1925, four days subsequent to the signing of the agreement in Washington, makes it quite apparent that the arrangements for the loan had all been completed contingent upon the successful outcome of the negotiations with the United States Debt Commission. A formal pledge was given that the Italian government would devote the proceeds of the loan to no other purpose than that of stabilizing the currency.

Four months after the dollar loan of November, 1925, another large borrowing transaction occurred, not on behalf of the government directly, but of a Credit Board enjoying governmental endorsement and guarantee. This establishment—the Credit Institute for Italian Public Utilities—borrowed $20,000,000 in New York for hydro-electric and gas industries in various centers of northern Italy. The proceeds of the loan were turned over to the Italian treasury, which incorporated them in its fund held in New York for currency stabilization purposes. Simultaneously, the treasury opened a credit in lire for the Institute at the Bank of Italy, thus furnishing the means with which to develop the industries in question. When the Institute has interest and sinking fund payments to make on account of its New York loan, it will pay the treasury in lire, and the latter will have the Bank of Italy put through the dollar transaction in New York, utilizing the funds kept on deposit there.

In addition to the foreign borrowings of the

Italian government, many of the leading business concerns of Italy have, since the conclusion of the debt funding agreement with the United States, been seeking and securing foreign credits, both through commercial loans of relatively short duration and through longer time bond issues. By the summer of 1926, the volume of these private obligations already equalled those incurred by the government. All this was, of course, foreseen before the debt negotiations were entered into, and indeed, as has already been pointed out, the desire to facilitate private foreign loans was an impelling motive for the government's policy.

Thus, during the first five years of the operation of the foreign debt agreements, the interest burden will be of slight significance. The proceeds of foreign loans—public and private—will much more than offset current outgo on debt account, both public and private. But, instead of liquidating indebtedness, Italy will, in fact, be increasing her obligations abroad; and when, at length, the full burden of the debt agreements has to be faced by Italy and met from her own resources, the situation will be a very different one. The seriousness and complexity of this problem will concern us in the following chapters.

CHAPTER XI

THE OUTLOOK FOR INTERNATIONAL OUTCOME

If a nation is to maintain economic and financial equilibrium, and at the same time pay off foreign obligations, it must have a surplus both in its budget and in its international accounts. Moreover, it has now come to be recognized, in the light of post-war discussion and experimentation, that such surpluses must represent net income. That is to say, while various temporary expedients may enable payments to be made even though neither the budget nor the international accounts show any real surplus, this cannot go on long.

For example, when the revenues from taxation afford no surplus with which to procure foreign currencies, the government may float an internal bond issue and thus raise the money necessary. But such an expedient, as has been clearly shown in various countries since the war, cannot continue to be resorted to indefinitely, for it renders the internal fiscal problem progressively more difficult and eventually ends in both fiscal and currency instability. Similarly, when the budget is unbalanced, one or another source of revenue may be "ear-

marked" for debt payments; but this will not long stave off the upsetting of equilibrium, if the actual and irreducible expenditures of the government steadily exceed the unpreëmpted revenues.

It is much the same with the problem of transferring funds to foreign creditors. Debts may for a time be met even though there be no surplus of bills of exchange arising out of trade and service operations. Funds may be borrowed abroad for the purpose. These measures result in no net liquidation of obligations. Again, landed property or industrial securities may be sold abroad as a means of procuring foreign currency, as may also public securities and even paper money. But these processes tend to weaken the economic organism of the nation just as the sale of the plant and equipment of an industrial corporation lessens its income-producing and debt-paying capacity. The economic and financial equilibrium of the nation can be maintained only if the foreign obligations are met out of net international earnings derived from foreign trade and service operations.

That the more difficult problem confronting Italy in her effort to maintain equilibrium while paying the foreign public debt funded in the winter of 1925-26 is the development of a net international income, rather than the accumulation of a budgetary surplus, has, we think, been foreshadowed in the chapters which precede. This we hold to be the case not merely in the years just ahead, but per-

haps for a decade or so longer. The budget prospect is none too inviting, to be sure; yet it is not such as to offer ground for grave apprehension. But the outlook for Italy's international earnings over a period of years resembles an uncharted expanse of forbidding waters. The task of converting budget surpluses into foreign currencies, available in consequence of the sale of goods and the rendering of services to foreigners in excess of purchases of foreign goods and services, will undoubtedly constitute Italy's major problem for years to come.

It perhaps needs emphasizing that, under the terms of the debt settlements with Great Britain and the United States, it is incumbent upon the Italian government to find the necessary exchange with which to meet the annual instalments regardless of the condition of the exchange market. There is no Transfer Committee representing the creditors and empowered to reduce the amount of payments in any year according as the status of the international income of Italy might require. The lack of any such machinery is doubtless regarded by the Italian people as relieving the nation's industries from the possibility of undue external control. The writer cannot imagine them taking any other view, and he certainly hopes that they will never do so. It need imply no dissatisfaction on this score to point out that the liability for providing dollars and sterling year after year will increase the difficulty and delicacy of the transfer problem.

I. THE FOREIGN TRADE DEFICIT

The primary cause of Italy's precarious international economic balance has always been the large surplus of imports. At times, the trade deficit has been offset by the earnings from services rendered to foreigners, but at other times, the accounts as a whole have shown a deficit, necessitating a resort to additional borrowing operations. Italy's ability to avoid further extensive borrowing and place herself in a position to meet foreign obligations will largely depend upon the extent to which the trade deficit can be reduced. A curtailment of the import surplus may conceivably be accomplished by means of (1), a reduction of imports, with exports remaining substantially the same, (2), an expansion of exports, with imports practically unchanged, or (3), a more rapid increase of exports than of imports. We shall survey each possibility in turn.

No significant curtailment of Italian imports is feasible. Italy's imports consist of three major categories—foodstuffs, raw materials, and manufactured commodities. The proportions which these classes of commodities have formed of Italy's total imports from year to year are indicated in some detail in Appendix E. In brief, foodstuffs have characteristically constituted, in terms of value, from 25 to 30 per cent of the total; raw materials and partly fabricated materials nearly 60 per cent;

and manufactured goods in the neighborhood of 15 per cent.[1]

With reference to the imported food supply, it may be safely said that no important reduction is possible in the face of a growing population. At best, the program of increasing agricultural production will yield results but slowly; and whatever the maximum improvement attainable, the peninsula's agricultural resources are too meagre ever to feed a dense population. If Italy succeeds in achieving a greater industrialization, the aggregate of food imports will probably even have to be increased over the course of the next generation. This has been the history of other European countries in a period of industrial expansion.

Nor can the importation of industrial raw materials be diminished if industrial production is to be expanded, or even maintained. Imports of such commodities as coal, petroleum, iron, copper, timber, cotton, and wool, cannot possibly be reduced without adversely affecting Italy's industrial program, and thus without curtailing exports. The development of hydro-electric power has, as we have seen, recently effected some savings in the matter of fuel, but the limit of the profitable exploitation of water-power resources has already come in sight. The rather sweeping statement may, therefore, be made that an expansion rather than a reduction in Italy's imports of raw materials will

[1] See tables on pp. 482-3 and 493.

occur according as the country develops along industrial lines.

With respect to the importation of manufactured goods, the situation is different. Pianos, electric fans, cosmetics, and other miscellaneous manufactures may be dispensed with without adverse economic effects. It is always difficult to control consumption, but, assuming that the importation of non-essential commodities and of materials for their manufacture could be prevented, the reduction would not bulk large in comparison with the total imports. Many types of manufactured goods are essential, and those imports which are clearly capable of being dispensed with probably do not constitute more than one-fifth of the total of manufactured imports. A 20 per cent reduction in the total of manufactured imports is all that may be reasonably expected, one amounting merely to little more than 3 to 5 per cent of the total import trade.

If we assume that the population of the kingdom continues to increase, even though at a moderately declining rate, we cannot escape the conclusion that Italy's imports as a whole are likely to expand rather than to contract. If her trade deficit is to be reduced it must be accomplished rather by an expansion of exports.

Can exports be expanded while imports remain virtually unchanged? One theoretical possibility for increasing exports lies in the reduction of do-

mestic consumption, thereby releasing products for sale in foreign markets. But the analysis that has been made of the standard of living of the Italian people indicates conclusively that no material reduction in the volume of consumption is possible. The need is rather for an improvement in the standard of living of the bulk of the population.

Another theoretical possibility lies in the more extensive utilization of domestic resources. But, as we have seen, Italy does not possess sufficient domestic resources to enable her to export greatly increased quantities of manufactures made from her own native materials. With the two important exceptions of silk and rayon, she is fundamentally dependent upon imported raw materials, and she must continue to play the part of finisher and manufacturer of the materials which other countries produce.[2] Clearly, if Italy is to develop a *greater* volume of exports, it will have to be accomplished mainly by the fabrication of increased quantities of imported and domestic materials into finished products for sale in foreign markets.

Can exports be increased more rapidly than imports? Regarding the matter purely from the point of view of production possibilities—that is to say, leaving the question of foreign markets out of account—it would seem that Italy might expand exports *relatively* to imports, while both imports

[2] In August, 1926, however, the Minister of National Economy issued a nation-wide appeal that domestic materials should be given preference over imported materials wherever possible.

and exports were increasing. Cannot Italy import a larger volume of raw materials and foodstuffs and obtain a net trade gain by exporting the finished products made therefrom, at prices high enough to cover both the cost of the imported materials and the imported foodstuffs required for the larger laboring population?

In any given case, it is true that the selling price of the commodity made from imported materials more than equals the cost of the materials and of the labor that converts these materials into finished products; but one cannot conclude therefrom that Italy's total exports will exceed her total imports. Such has not been the case in the past—for the simple reason that the Italian population itself has to be supplied with manufactures made from imported materials, only a portion of the finished product, consequently, being left over for exportation. More than any other important European country, Italy is dependent for her own supplies of manufactured goods upon imported materials.

It is possible, however, for Italy to expand her exports somewhat by a greater specialization in quality production. The more highly fabricated the product, the greater the proportion of its value attributable to Italian labor; hence the greater the margin between the cost of the imports and the price of the exports. In fact, the emphasis of Italian industry has been gradually shifting toward quality production, partly because of an inability to

compete in mass production with countries abounding in raw materials and partly because Italy's best chance of meeting international competition lies in the utilization of her abundant and cheap labor power in the higher forms of manufacture. Unquestionably, Italy will stand to gain by continuing to pursue this policy; but, as we shall point out presently, the markets for her quality products are not altogether assured.[3]

Inadequate and uncertain markets tend to restrict Italy's export trade possibilities. In order to understand the nature of Italy's export problem it will be necessary to indicate the importance of various countries as absorbers of Italian products. From the end of the war through 1924, France held first place as a country of destination for Italy's exports, but in 1925, Germany assumed the leadership. Second place has been held by Switzerland each year except in 1923, when the United States was second, and in 1925, when second place passed to France, with Switzerland ranking fifth in the list

[3] That the Italian government is giving careful consideration to the export problem is evident from the fact that it has set up three administrative agencies especially concerned therewith. They are the Economic Council (1923); the National Institute for the Promotion of Export Trade (1926); and the Central Statistical Institute (1926), which consolidates under the prime minister all existing statistical services. At the inauguration of the second of these, President Mussolini declared: "Italian industry must march with a common front, at least in export trade. At home, enterprises which cannot prosper must be liquidated. At home and abroad, the Fascist Confederation of Industry will bring about the adoption of uniform policies in all industries, and above everything, the elimination of ruinous competition outside of Italy."

of countries. Great Britain has held third place in three of the post-war years. Argentina stood in sixth place in 1925; and then a long way behind her came Austria, Yugoslavia, India, and Czechoslovakia. The table below shows the amounts imported by the more important countries in the year 1925.

ITALY'S PRINCIPAL EXPORT MARKETS, 1925 *

(In millions of lire)

Market	Imports from Italy	Market	Imports from Italy
Germany	2,027.0	Argentina	1,145.4
France	2,019.5	Austria	666.1
United States ...	1,887.8	Yugoslavia	496.5
Great Britain ...	1,855.0	British India	334.6
Switzerland	1,634.4	Czechoslovakia ..	171.5

* *Gazzetta ufficiale, 1926, Supplemento No. 193,* p. 32.

The nearby Balkans and the countries of the Mediterranean littoral occupy a very unimportant place in the Italian export trade. Nor are there great possibilities for an expansion of exports to these countries. They absorb some goods of cheaper quality and finish, in the class of textiles, for example, but they will not be able to purchase highly fabricated products until such time as they have reached a much higher stage of economic development. There any prospect that Italy will play an important part in furnishing to these undeveloped regions the capital goods of which they stand in need. There is the keenest sort of competition in such markets and the business will go rather to the

countries which offer the best and the cheapest credit facilities. In this respect, as in raw materials and in the machinery of mass production, Italy is handicapped as compared with numerous other countries.[4]

The Italian merchants have devoted a great deal of effort, in recent years, to the strengthening of their network of commercial connections in all that region. Out of these commercial relations have grown large-scale financial operations, in Greece, Rumania, Yugoslavia, and Albania. The inter-connection of commercial and financial development with politico-strategic relations is well illustrated in the case of Albania. After the war much of this small and interesting country was occupied by Italy, and a great deal of Italian money, sometimes estimated at as high a figure as a billion lire, went into the physical development of Albania along various lines, a development carried out in the main by the army. When the military forces were withdrawn in 1921, the banks and industrial interests remained; and in the years 1924-1926, Italian activity in Albania has been intense.[5] Whether, in their later development, these countries will require

[4] Efforts are being made in Italy, however, to meet this sort of competition, as is evidenced by the fact that in May, 1926, a loan of 200 million lire was granted by a syndicate of Italian banks to the government of Rumania—one-half of the proceeds to be devoted to the purchase of Italian machinery and equipment, the rest representing an extension of Rumanian war-time credits.

[5] On the National Bank of Albania, the control of which is now more than half Italian, see *Manchester Guardian Commer-*

considerable quantities of the types of goods Italy can furnish remains to be seen. In any event, a considerable length of time must pass before the industrial output of Italy can be dependably planned with any important regard for the consumptive capacity of Eastern Europe and the Levant.

The extent to which Italy's foreign trade in the higher forms of manufacture may be expanded depends upon factors which are by no means entirely within her own control. In many lines she has severe competition to meet, as well as tariff walls to surmount. When the substantial success of the Italian rayon industry had become known, it was a matter of but little time before trade restrictions were imposed in some of the best markets. No sooner had Italian automobiles of a luxurious character achieved something like a standard place in international trade, than competitive rivals in other countries, by resorting to tariff protection, succeeded in checking, if not in circumscribing, the expansion of the market for Italian cars.[6] The

cial, April 30, 1926, p. 464. Other phases of Italo-Albanian economic relations are discussed in the same journal, August 5, 1926, and London *Times,* September 4, 1926. See also memorandum on Albania prepared for the League of Nations by Professor Albert Calmés, September, 1922. Anglo-Italian petroleum negotiations in Albania are reviewed in *Revue économique internationale,* February, 1926, pp. 303 ff. For an entertaining summary of the state of opinion in Athens and Constantinople regarding Italo-Hellenic co-operation, the Levantine objectives of Italy, and the connection between Mosul petroleum control and the Anglo-Italian debt funding negotiations see the *Frankfurter Zeitung* of April 29, 1926.

[6] What has happened to the Italian straw hat industry in consequence of the United States Tariff Commission ruling, based

more highly protective countries go so far as practically to shut out objects of art and artistic imitations in such fashion as to threaten the continued operation of the least commercial forms of quality production. The tariff legislation of the United States, in particular, places heavy duties upon Italian mosaics, ceramic wares, carved and cut marble, woodwork, metal work, tapestries and the like, unless a certificate can be presented to prove that the objects have been executed from designs of artists of United States citizenship, or are genuine works of art, according to expert opinion, or, finally, are more than 100 years old.

It is superfluous to dwell on the vicissitudes to which foreign trade in foodstuffs, beverages, and like products is exposed. Italy has seen the markets for her oranges, lemons, and other citrus fruits restricted by protective policies on both sides of the Atlantic, often because of bargaining considerations exclusively. Her dairy products and cereal derivatives are likewise affected by tariff restriction and competition of industries where greater supplies are available. Her wine and olive export trades have undergone the most remarkable ups and downs in the last decade in spite of traditional markets thought to have been established beyond all challenge decades ago. In no single department of ex-

on the comparative cost of production clause in the Tariff Act, not long since was a matter of newspaper comment. The text of the presidential proclamation of the ruling is in Treasury Decision 41,374, of February 18, 1926.

port trade does Italy command, in reasonably secure fashion, a place which she can expect to hold against all comers.

The trend of commodity prices will affect the magnitude of Italy's trade deficit. The foregoing discussion has been centered around the factors that will affect the quantity of imports and of exports, and we must now consider for a moment the effects of changing price levels. The world price level in terms of gold is now roughly 50 per cent above what it was in the years just preceding the war. Such a change means that if there had been no substantial variation in quantity figures, any trade deficit would have increased by 50 per cent. Let us assume that during the next decade or so, the total quantity figures of Italy's foreign trade remain unchanged. If the world price level meanwhile moves upward, the amount of the trade deficit in terms of money will rise correspondingly, while if the trend is downward the extent of the deficit will be proportionally reduced. The price trend over the next generation may thus prove an important factor in determining the extent of the export deficiency.

The interesting fact to note in this connection is that declining prices would tend to diminish the Italian trade deficit. A long period of falling prices might, however, on the other hand, have some effect upon the quantity of trade and thus nullify whatever gains might accrue from falling money

values; and the loss in the income from services and remittances would in itself be an adverse result of such a decline in price levels. These considerations illustrate the difficulty of predicting the extent of the trade deficiency over an extended period.

It is fruitless, then, to attempt to measure the precise extent of Italy's future commodity deficit. It must suffice to point out here that for a decade preceding the Great War it averaged about one billion gold lire, equivalent to about 1.5 billions in post-war values, and that during the years 1923-1925, when Italian export trade was stimulated as a result of the depreciated exchange, it averaged something like 1.4 billion gold lire. The deficiency during the last two or three years has thus been only slightly less than it was before the war.

A period of exchange stabilization, as we have seen, will increase the export deficiency for some little time and the figure of roughly 1.5 billion gold lire in 1925 may well prove the lower limit for several years to come. It may be recalled that the exports for the first half of 1926 were below those for the corresponding months of the preceding year, indicating that a process of readjustment was already under way. The extent to which the trade deficit may be reduced over the next decade or so depends upon the controlling and limiting factors already discussed. We make no effort to present a precise figure; but we feel sure that because of Italy's dependence on the outside world for much

of her food, and the bulk of her raw materials, and because of the handicaps with which her own export trade is confronted, a trade deficit of substantial proportions is likely to continue for an indefinite number of years.

II. THE OUTGO ON ACCOUNT OF INTEREST CHARGES

On the outgo side of Italy's international accounts, interest charges will become an increasingly burdensome item, unless world prices rise sharply. In our investigation of the present status of Italy's international accounts we reached the conclusion that the interest obligations resulting from foreign borrowings on private account now amount to something like 400 million gold lire annually. Inasmuch as a considerable expansion in private borrowing is expected during the next few years, the interest charge stands to increase rather than decrease.

In addition to the interest on the foreign indebtedness of individuals there is now an interest obligation of the government—both on the funded debt to foreign governments and on the loans procured from private sources abroad. As a result of the funding of the war debts to the United States and Great Britain, the outlay on this account may be definitely predicted for the next half century. The schedule of these payments is given in Appendix C; here, it is merely necessary to note that by 1934 the annual interest charge on the war debts

will amount to 177 million gold lire, by 1940 to 192 million gold lire, and by 1950 to 222 million gold lire.

At the present time, the interest charge on the New York loan of November, 1925, amounts to 42.5 million gold lire. In view of the prospect of further substantial foreign credits in connection with the program of stabilization this item also will tend to expand. Accordingly, one is safe in estimating that the total interest charges to be met during the next two or three decades will run from 600 to 800 million gold lire annually.

If the trade deficit remains as high as it was in the later years before the war and as it has been during the boom period of 1923-1925, the total external obligations to be met would run in excess of 2 billion gold lire annually—600 to 800 millions on debt account and roughly 1.5 billions on account of the commodity deficit. If the trade deficit could gradually be reduced as much as 50 per cent the foreign obligations remaining to be covered annually by the proceeds of service operations would still be in the neighborhood of 1.5 billion gold lire. We must now turn to a consideration of the possibilities of covering this deficit by means of service income.

III. THE PROSPECT FOR INCOME FROM SERVICES

Any attempt to estimate with precision the probable earnings derived from the remittances of Ital-

ians living abroad, from the tourist trade, or from shipping and miscellaneous services over a long period of years would be of little value. All that can be done is to point out the general factors which are likely to affect the volume of such income.

The volume of remittances appears likely to decline unless the immigration policy of a number of important countries should be changed in the near future. The recent trend of emigration, as we have seen, has been away from the individual migrant, who regularly sends back money to relatives in Italy and periodically returns to his native land, and towards the migration of family groups tending to sever their home ties. If this newer tendency continues, and at the same time the net total of emigration fails to increase over present figures, the income derived from remittances will tend to diminish as the years go by.

With regard to the next great source of income, namely, the expenditures of tourists, the prospect for expansion is better. While the tourist trade has been stimulated to some extent by the relatively low internal price level obtaining in Italy in recent years, there is no reason for assuming that the income from this source will tend to diminish. On the contrary, barring developments now unforeseen, the prospect is for a gradual increase from this source. It would seem that the systematic cultivation of this source of international income through

the improvement of transportation and hotel facilities may be expected to repay the energy and money required.

The earnings from shipping and miscellaneous sources do not bulk large in the total. Nor is there much reason to believe that they will register any significant growth in the next decade or so. The return of Germany as a factor in ocean transportation and the severe competition in general militates against any substantial expansion of Italy's earnings in this connection.

In the years 1923-1925, the net average income derived from emigrant remittances appears to have been a little less than 600 million gold lire; from the tourist trade, somewhat more than 600 millions; and from shipping and miscellaneous sources, something under 300 millions—making a total of nearly 1.5 billion gold lire. Assuming that possibly increased returns from the tourist trade and from miscellaneous sources tend to offset possible reductions in the volume of emigrant remittances, the net earnings from the service operations would be sufficient to cover a trade and interest outgo of something like 1.5 billion lire. If at the same time the trade deficit were reduced by as much as 50 per cent the international accounts would be brought into balance. That is to say, if one assumes favorable developments at nearly every turn, it is possible to foresee a situation in which Italy would

be able to carry through the liquidation of her foreign obligations.

In conclusion, then, it appears that if political and economic stability can be maintained over a considerable period of years and if no developments occur which would affect adversely either export trade or the volume of earnings from services, it is possible that Italy may be able to meet the obligations which she has assumed. On the other hand, it is easily possible that business depression, political instability, or an intensification of international competition might render it impossible for Italy to meet her foreign obligations while maintaining financial equilibrium. The basic factors upon which Italy's economic future will depend may be discerned at the present time, some clearly, others less so; but the complex of controlling forces—political, social, and economic—is such that prediction is futile.

CHAPTER XII

ECONOMIC INTERESTS AND NATIONAL POLICIES

We have seen that the Italian state emerged from the fringes of the European political and economic system recently, as the lives and fortunes of nations go. A great many people are still living who can remember the union of the two principal kingdoms of the peninsula in 1861. An old and many-sided culture characterized the units which went to make up the unified kingdom, and the many divergencies of thought and policy resulting from this fact retarded the material growth and magnified the effects of political stress and social strain, which young nations occupying fertile lands with an abundance of elbow-room are able readily to overcome. The fact that Italy had yielded means of support for a great many generations to a large population (in consequence, indeed, of arduous effort on their part) did not make it easier to develop a comfortable and large-scale manner of living for those of the last two generations. Age-long traditions could not be disregarded all at once, nor long-established interests wiped out

without compensation. A policy of conciliation and adjustment had to be pursued along with the protracted and severe efforts to achieve a solid place in the world's economy.

With such natural endowment as she possessed, Italy set out to create a national transportation system and to bring about some intimacy of relation and interest between the quite different systems of local economy that existed for so long before her political unification. During the better part of a generation, she was absorbed in the pressing problems of one day and the next in the field of transportation development, public credit, the achievement of some sort of stable currency, and administrative organization along national lines.

At the same time, the country had to face the problem of providing means of livelihood and making possible rising standards of living for an increasing population. This led, on the one hand, to more and more definite encouragement to emigration and, on the other hand, to the development of industry at home. The existence of a cheap labor supply constituted an important resource for the latter purpose and was one of the factors which stimulated the flow of foreign capital to Italy in the later years of the nineteenth century. There followed, as is usually the case, the development of a commercial policy of a robustly protectionist character.

As a result of the political and of the economic

unification that had gradually been achieved, by the eve of the war Italy had attained a new position in the world. No longer merely an agricultural and a trading nation, her people were coming to play a rôle of at least secondary importance in the fabrication of raw materials into finished wares. Thanks to the expansion of industry and the lack of foreign barriers against Italian immigrants, the people at home had been able gradually to improve their standards of living. The increase in national wealth and income had, however, been made possible only as a result of extensive foreign loans; and the nation had not attained a position of commercial and financial independence, as is shown by the fact that, in the years just before the Great War, the deficit on account of international trade and service operations was tending to increase.

Italy's decision to enter the war on the side of the Allied nations was strongly influenced by her remoteness from sources of supplies, and dependence, therefore, upon the favor of those who controlled trans-oceanic shipping. Participation in the war meant great material sacrifices to Italy, as to other countries; and no less than seven hundred thousand men were killed, the number wounded exceeding a million and a half.

Directly following the war, economic and political changes came so fast as to make it difficult for those responsible for public policy to keep constantly abreast of them and to realize their effects

upon national interests. For example, the universal delusion as to the productive and consumptive capacity of a world that in reality had been impoverished and enfeebled required more than a year's time to be revealed in its true character. The solidarity of military and naval action with which alone, in the light of bitter experience, the Western powers and Italy had been able to accomplish their purpose, did not extend, it was soon found, to any post-war solidarity of either financial or commercial policy. Moreover, any constructive commercial policy was impossible so long as the nationalistic spirit which had been rampant during the war persisted in practically all countries.

In consequence of these events, along with internal political changes of far-reaching significance, it has been exceptionally difficult for those forming the public policy of Italy at any time since the end of the war to appraise the relative importance and urgency of the various apparent interests of Italy. Should she resort to increased protection as other nations were doing? Or should she perhaps bend all her efforts to the acquisition of foreign markets at any cost? Again, would it be better for the Italian people to devote themselves, first and foremost, to the creation at home of an adequate food supply? Were financial stability and independence from external financial control the foremost objectives, the achievement of which must precede the serious undertaking of other tasks? The difficulty

in weighing these elements in the situation and in formulating a well-balanced policy for the nation was all the greater because the conditions were so constantly shifting. Each group of interests exerted its pressure upon the government on behalf of the program or programs which it held to be most urgent. Consequently, the administration was never given the time essential to discern and analyze the various underlying factors in the situation.

Yet an analysis of the underlying factors which affect the national interests and consequently shape the present and future policies of the country would seem to be indispensable at the present juncture in Italy's affairs. Those upon whom the responsibility of guiding public policy rests must realize to-day more than ever the necessity of formulating the course they can best pursue on the basis of the most profound reflection and exact calculation possible. The conclusions of Chapters X and XI have indicated how delicate and complex is the situation with which Italy is confronted both in the near future and the longer run. Accordingly, it would seem appropriate to devote the closing pages of the volume to an enumeration of some of the major economic interests which might be expected to determine the national policies of Italy now and in the near future.

Clearly, Italy must restrict the growth of foreign indebtedness. We do not mean that an automatic barrier should be set up against ordinary borrow-

ing transactions related to the financing of the purchases of imports. These transactions may be expected to increase somewhat according as the volume of trade increases and as the national income of the nation expands. So long as the increase of ordinary commercial borrowing is in proportion to the greater economic activity of the country, there can be no great danger that Italy will be carrying an undue burden.

But it is surely not unreasonable to hold that foreign private debt, unfunded or long-term, must not be allowed to increase rapidly. The line of least resistance for Italy is to continue borrowing extensively for both public and private purposes. On the theory that additional foreign loans will make possible more economical production, almost any amount of additional foreign credits appears, at first thought, to be justified. But it must not be forgotten that foreign interest obligations exert added pressure upon the exchanges, and that if the internal improvements desired can be effected without resort to foreign borrowing, the situation as a whole will be substantially stronger. It is true that at this time there is a shortage of liquid funds in Italy; and this fact stimulates and appears to justify the resort to more foreign credits. But, as we have seen, Italy appears to be on the threshold of a period of financial readjustment and deflation. At the end of a depression period the Italian money market will be materially eased and the floating of internal

loans at more moderate rates of interest, as has been the case in other countries under similar conditions, will again doubtless become possible. At best, such loans can only prolong somewhat the period of inflation, and postpone the coming of financial stabilization; they cannot obviate the necessity of an ultimate price and business readjustment.

Moreover, if Italy incurs large additional foreign obligations at this time for industrial development, it will be at a cost of 8 per cent or more; and this would mean not only shouldering excessive overhead charges for a long period of time but also materially complicating the problem of maintaining the stability of foreign exchange. Additional foreign credits ought not to be sought, it would seem, except in connection with the program of financial stabilization.

And over a period of years, also, the wise national policy will be, (1) to hold down to the minimum the aggregate of credits from abroad; (2) to consolidate the mass of floating obligations now held by foreigners; and (3) to bring about the refunding of all outstanding public and private debts to foreigners at lower rates of interest. Italy's foreign public and private indebtedness as a result of the war has been greatly increased without corresponding improvement of the nation's producing power. Moreover, practically all of this indebtedness, except that owed to foreign governments, has been created at rather high interest rates. Mounting

charges on interest account, unless checked, will be a menace to the maintenance of financial equilibrium; and the floating obligations, unless consolidated and funded, will be a persistent disturbance to exchange stability.

In the light of the uncertainties surrounding the future of Italy's trade and service earnings, it is obvious that every effort should be made in the next few years to reduce the burden of foreign interest charges. For, if the interest owed to foreign holders of Italian securities, public and private, continues to increase, the country will find it impossible to escape from serious exchange difficulties by the time the annual charges of the war debt begin to approach their maximum.

The maintenance of free international access to foreign foodstuffs and raw materials is a fundamental interest. Like other countries which are largely dependent upon imported foodstuffs, Italy has a direct interest in the movement of foodstuffs from producing to consuming centers, free from official or speculative restrictions. Italy is even more dependent upon the free movement of foodstuffs than Great Britain for she possesses no important food producing dominions to which, in case of need, she might turn for the bulk of her food resources.

If this be true of food supplies, accessibility of raw materials at reasonable prices is almost more vital. The very life of most of Italy's industries, as we have

seen, depends upon the accessibility of materials at reasonable prices. The extent to which Italy's activities are dependent upon imports may well be illustrated by reference to the shipping industry. A large merchant marine is desired; but since fuel is lacking, the ship-building industry has turned to the use of electrically-driven tonnage, in the construction of which Italy now stands first. But the electrotechnical industries depend upon foreign supplies of the higher grade steels and copper. Practically every major industrial activity confronts an analogous difficulty in some stage of its respective processes.

Hence the instinctive apprehension with which Italians view the international integration of the industries controlling the principal metals. Hence, too, the repeated initiatives on the part of Italy to bring about international co-operation in the allocation of materials, and even in their international regulation. It is safe to say that no other country would be so completely handicapped by monopolistic or nationalistic control of the prices and of the international movement of raw materials.

Italy stands to gain from the moderation of protective policies in the world at large. It may seem paradoxical to lay down this proposition in the case of a country whose behavior has been militant in the field of commercial policy, to use a conservative expression. No particularly useful purpose would be served by examining the defense of Italy's protec-

tionist policies to the effect that they are merely a logical consequence of like measures long previously adopted in other countries. One may fairly summarize the defense of high protection made by Italian industrial leaders in two sentences. Since she has few raw materials, in the nature of things Italy must specialize in industries in which her labor contribution will be considerably more than equal to the value of imported foodstuffs and materials. This implies not only getting her supplies and her working equipment at as low a cost as possible, but also protecting her labor from competition with better equipped countries which have the capital and materials as well as the labor. It might be pointed out parenthetically that a serious problem insistently confronts the leaders of Italian industry owing to the fact that Italian labor naturally believes that the protection accorded to industry, and therefore, to the country's national economy as a whole, should provide a larger share for labor than has heretofore been the case.

Pre-war tendencies, which we have summarized on p. 471 of Appendix E, and post-war developments seem to have committed Italy to protection as a fundamental national policy. Yet the opinion may be ventured that, on the whole, Italy would have more to gain by international tariff disarmament than most European countries, perhaps enough to justify her taking the initiative in lowering her industrial if not her agricultural duties just as soon as

there is the least perceptible prospect of a relaxation of economic barriers on the part of countries on either side of the Atlantic. This opinion is based upon the consideration that the clearest future course for Italy lies in the most effective use of an abundant labor supply working up imported raw or semi-manufactured materials. It is a serious question whether high duties on manufactured goods facilitates such a course.

The maintenance of peace is another major Italian interest. It goes without saying that *every* nation has a cardinal interest in the maintenance of peace throughout the world. The economic processes of distinct regions of the world, while still more or less easily separable one from the other, tend, for a variety of reasons, towards gradual integration into one seamless fabric. The culmination of this process may take a long time yet to be realized. But certainly it has developed far enough so that every local or large-scale disturbance affects at once the barometer of world politics and world business.

Struggles of continental proportions in either hemisphere are certain to depress indefinitely, perhaps to impair gravely, the prospects of progress for any country so situated as Italy. Her tourist traffic and the prosperity of her sons and daughters laboring abroad alike reflect faithfully and promptly the consequences of serious trouble in either hemisphere; and if this were the case before the World War, it is doubly so now, since the drift of events in the last

10 years has carried the country into the position of owing to foreign creditors an amount fully one-fifth as great as the most generous estimates of the aggregate value of her national wealth.

Italy is exposed to any disturbance on the continent of Europe, and many elements in the nation have little by little been developing a nervous and restless psychology under the stress of the fretful and unsettled course of events on the continent since the Treaty of Versailles went into effect. Internal political developments have tended to complicate the pathological sensitiveness of the international situation. The success of the Fascist régime in effecting internal economic reorganization, largely through the intensification of nationalistic impulses, could not but inject a crispness of tone and program into international discussions which other countries might incline to view as militant.

Be this as it may, the fact must not be overlooked that although a maritime power from the nature of her contour and location, Italy's dominion—with an exception negligible at the present time—all lies within a body of water for the most part dominated by powers whose interests, rightly or wrongly, are conceived by themselves and by many Italians to be substantially irreconcilable with those of Italy. One can hardly expect a nation which is always on the ragged edge of going threadbare, to sit quietly radiating an atmosphere of good humor when the continent to which it is attached seems to suffer from

incurable psychoses and the sea which washes its shores belongs pretty much to somebody else.

The chief menace to peace lies in the possibility that the acquisition of territory might be looked upon as an indispensable prerequisite to the solution of economic, industrial, and financial problems. But if Italy were to acquire possession of all the more valuable stretches of Northern Africa, she would provide an outlet for a million or so, at best, of Italians in the course of the next decade. Nor would the acquisition of territory in the eastern Mediterranean constitute an important solution of Italian economic problems. Again, the gradual political and economic penetration of adjacent countries or areas would yield no great economic gain. But, on the other hand, conquest and the carving of spheres of influence carry with them the cost of perpetual preparedness for hostile combinations of other powers. As was pointed out in Chapter I, Italy has already had costly experiences in connection with territorial ventures. Whatever the national policies of other countries may be, Italy has more to gain by striving for the other objectives to which we have called attention than by directing her energies to programs of territorial expansion.

The free and unrestricted movement of human beings from one country to another is a paramount interest of Italy. In other words, it is her interest that the liberal point of view which existed through most of the nineteenth century in this respect should

prevail. Naturally, we have no reference here to police and sanitary restrictions. There is perhaps little that Italy can do to bring about a return to the point of view formerly general. What little does lie within her power, she has already commenced doing—by furnishing the best possible training in skilled and semi-skilled trades and callings to candidates for admission to other countries. This commendable program follows out elaborate precautions taken in the past to insure proper sanitary and like conditions surrounding the whole emigration process. But the main obstacles in the way of having such a liberal view obtain and prevail can hardly be removed by anything that Italy can do. The legislation of different countries restricting immigration is the outgrowth of economic and social considerations which obviously lie beyond the reach of Italian influence.

To-day, Italy is organized on the basis of a fundamental policy which contemplates the fusing of all the material and psychic forces of the nation into a single dynamo of production.[1] An intricate and colossal machine is in process of construction with the avowed and ambitious object of maintaining

[1] "Like Friedrich List, Fascism interprets the State as a productive force, and views the nation . . . as the best means to genuine economic development and progress. The *nation* is for Fascism, as it was for Mercantilism, an economic organism living within definite politico-juridical confines." Robert Michels, "Das neue Arbeitergesetz in Italien," *Wirtschaftsdienst*, August 20, 1926, p. 1,129 ff.

economic equilibrium for forty million human beings, beset by untoward forces. These millions appear to have accepted, at least for the present, the theory that they constitute a definite economic organism. Perhaps their acquiescence therein is an instinctive or even unconscious response to the gravity of their circumstances. They are all too well aware of the limitations imposed by their physical setting, and of the effort which it costs each of them, saddled with individual portions of collective foreign indebtedness, to make head against the storm set in motion by monetary disturbances, and by far-reaching migrational and occupational adjustments. If this chapter has not exhausted the list of the economic interests of the Italian people, or done more than indicate their coincidence or conflict with the interests of other peoples, it has at least emphasized the complexity of the task confronting Italian statesmanship, and prepared us to follow with the closest attention and sympathy the progress of the nation's effort.

For much depends upon the success with which the economic machine maintains equilibrium, or, expressing it in another way, upon the extent to which the national organism resists the forces threatening the disintegration of its identity with the past and the future. It may be that incalculable importance will attach to the results of the supreme sacrifice of individual interests which the Italian people are called upon to make; for it may in time

become generally apparent that even extreme economic endeavor will not suffice to wrest a greater measure of independence from international economic forces than Italy now has. If the Italian effort, engaged in so earnestly, fails of success, then there would seem to be but little prospect of reconciling those forces with the idea of the economically independent national or political state.

APPENDICES

APPENDIX A

THE INTERNATIONAL ACCOUNTS OF ITALY

As indicated in the text, the outstanding problems in the economic life of Italy are those of emigration and the fulfilment of public obligations arising out of the war. In subsequent appendices, to which reference is made in the appropriate places of the text, the data relating to these problems are set forth in detail. Here, however, it is necessary to survey all the gross liabilities and resources of Italy, or more correctly of the whole national economy of Italy considered as a unit in the world's economic system. A review of all the accounts of income and outgo ought to cover not merely the rapid industrial development of the decade since the war, but substantially the entire generation preceding the war in addition. In this way the period which covers several years prior to the loss on the part of agriculture of its former pre-eminence in Italy's economic life will be covered. We shall therefore, review in this appendix, after determining what items properly enter into the income and outgo accounts, their course before, during, and since the war; and such reference as is relevant will be made to commercial policy in its bearing upon Italy's economic position.[1]

[1] The fullest discussions of the Italian balance of accounts (or, as it is often called, balance of payments) are the following: Luigi Bodio, *Di alcuni indici misuratori del movimento economico in Italia*, 2d ed., Rome, 1891; Bonaldo Stringher, director general of the Bank of Italy, "Sur la balance de paiements entre l'Italie et l'étranger," in *Bulletin de l'Institut international de Statistique*, Vol. XIX, pp. 93–123, and in Vol. III of *Cinquanti anni di storia italiana*, Rome, 1911; Pasquale Jannaccone, "Relazioni fra commercio internazionale, cambi esteri e circolazione in Italia nel quarantennio 1871–1913," in *Riforma soziale*, XXIX, pp. 513–590; Giorgio Mortara, "Il bilancio degli scambi economici fra l'Italia e l'estero," in *Rivista*

I. SOURCES AND CHARACTER OF DATA

The first place in Italy's international accounts, as in those of other countries, belongs to the movement of goods to and from, into and out of the country, and payment for them. Closely associated with this item is that which relates to the movement of the precious metals. Official trade figures were gathered in Italy long before the peninsula was politically unified. The consolidation of the customs services of the former political divisions was in due time followed by the introduction of a consolidated statistical service. The government publications dealing with the subject have been complete, but are not of the utmost serviceability for the comparison of figures over relatively long intervals, because of the fact that official valuations were used until the fiscal year beginning July 1, 1921, when valuations declared by importers and exporters came into use. The official valuations formerly in use were intended theoretically to be revised at regular intervals; but in fact the revisions were irregular, and took account of changes in prices only considerably after these changes had occurred. The movement of precious metals has been regularly reported, except for the war

bancaria, Milan, February 20, 1924, pp. 73–93, and Gino Borgatta in the official memoranda prepared in connection with the negotiations for the funding of the Italian foreign public debt. The documents on which these authorities rest their conclusions are found in the various trade and other statistical publications of the Italian government, principally the annual *Movimento commerciale del Regno d'Italia*, the quarterly, formerly monthly, *Statistica del commercio speciale di importazione e di esportazione* (conveniently summarized in the *Monthly Bulletin of Statistics* and other publications of the League of Nations, and in the *Recueil mensuel de l'Institut international du commerce* of Brussels), and the *Documenti sulla condizione finanziaria ed economica dell' Italia*, 1923. Note discussion of the latter in *Economist*, London, January 5, 1924, pp. 19–20. *The Indici del movimento economico italiano con alcuni confronti internazionali*, a quarterly, the first issue of which appeared in 1925, under the editorship of Professor Gini, will furnish data valuable in testing conclusions as to the international accounts.

No discussion of the nature of the international accounts is undertaken in this book. A separate study presenting the Institute's position on this subject is in course of preparation.

years, by the Treasury, while some meager data relating to reparation deliveries to Italy will be found in the official publications of the Reparation Commission.

Next in importance to the trade figures are those which relate to the remittances of persons of Italian birth or descent resident abroad. In spite of the fact that these remittances constituted a source of revenue from abroad for the national economy as a whole second in volume only to the proceeds from export trade, it was only on the eve of the war that thorough-going research on the subject was undertaken by responsible officials of the banks of issue, the postal administration, and the commissariat of emigration. From a number of sources relevant material was painstakingly assembled on the sources, volume and routes of the remittances.[2]

The expenditures of visitors to Italy (tourists, students, officials, pilgrims, and others) greatly exceed the expenditures of Italians abroad. This had been the case in all probability since the days of the Roman empire. The number of foreign students attending Italian universities and of foreign scholars engaged in more or less prolonged researches and studies — archæological, ecclesiastical, and the like — has been considerable for a good many centuries. Administrative officers of the Catholic Church have been constantly traveling to and from Rome. But these classes of travelers are all overshadowed, from the economic point of view, by the enormous influx of tourists and long-time sojourners from abroad. Naturally it does not depend wholly upon Italy whether they shall come or not; business conditions at home may prevent many of them from traveling at all, or some greater attraction may suddenly develop to draw them elsewhere. But travelers have been, on the whole, except for the war years, among the most dependable sources of income for the country. Their expenditure in Italy,

[2] The chief studies here are those of Stringher, Mortara, and the discussion cited in notes 40 and 44. The official memoranda prepared in connection with the negotiations for the funding of the Italian foreign public debt also deal with the subject at some length.

moreover, constituted the first of the big items of income to recover quickly after the war.[3]

Before the war capital was coming into Italy in considerable volume; but during and since that struggle its importation in a wide variety of forms has assumed the greatest importance. The interest upon these borrowings, public and private, constitutes, therefore, an important item in the accounts. Of considerable importance also are the earnings from the operation of the merchant marine and the outlay for banking services and commercial commissions, insurance charges, and other expenses arising from the movement of commodities or persons. The material relating to these items in the discussion that follows has been taken from official sources, or from such special discussions as may be noted.

II. THE PRE-WAR INTERNATIONAL ACCOUNTS

A. The Balance of Trade

Throughout the entire period of Italian national unity, the balance of trade has been unfavorable; and the steady increase in the excess of imports over exports is perhaps the most striking feature of Italy's international transactions. The table on the accompanying pages presents the commodity and specie movement for the pre-war period. Examination of the figures for the years before the war brings out certain interesting tendencies.

In the period between 1870 and 1880, the excess of imports tended to be relatively slight. In the following decade it increased materially; this was a period for the most part of relative prosperity during which a good deal of foreign money was entering Italy in the form of subscriptions to state loans and the like. Towards the end of the decade, the borrowing had brought in its train heavy interest payments, and there was a tendency on the part of the excess of imports to decrease. A veritable

[3] The principal discussion of this group of items for the pre-war period is to be found in Stringher's article, and for the period since the war, in the publications of the *Entità nazionale italiana turistica*, known familiarly as "Enit."

crisis dominated the larger part of the following decade; the imports fell off relatively in greater degree than the exports. From 1901 to about 1911, the imports again moved rapidly away from the exports. Once more this was a decade characterized (particularly in so far as relates to the years 1901–1908) by substantial foreign investment within Italy; and this, too, was the decade marked by sufficient prosperity to enable the repatriation of much of the public debt that had been placed abroad. The last three years before the war were thought by Professor Jannaccone to mark the beginning of another period of reduced excess of imports over exports; but whatever may have been the tendency most likely to develop in this period, the beginning of the war produced profound and far-reaching changes.

The importance of the excess of imports over exports in determining Italy's whole international position makes necessary a review of Italian commercial policy prior to the war; and accordingly some attention will be given to the development of foreign trade and the course of commercial policy in so far as it helps to explain the trade situation, in a separate appendix, E, page 464.

It will be observed from the table that Italy has periodically imported considerable quantities of bullion and specie. Such was the case in the early eighties and again in the early years of the twentieth century. In the period from 1880 to 1914 imports of specie exceeded exports by 620.5 million lire. These imports were, of course, chiefly for the purpose of building up currency reserves.

A review of the trade and specie balance of Italy before the war leads to certain general conclusions. The excess of imports over exports tended more or less steadily to increase. The importation of cereals, fuel, and other essential raw materials showed a greater increase than other commodities. Commercial policy, as may be seen in Appendix E, encouraged the nascent industries of the north; by dint of operating within slender margins of costs and profits, these industries were finding it possible to sell in foreign markets. Still, the export trade remained on

TRADE AND SPECIE BALANCE OF ITALY, 1871–1913 *
(In millions of lire)

YEAR	COMMODITIES			BULLION AND SPECIE			NET DEFICIT[a]
	Imports	Exports	Net Deficit[a]	Imports	Exports	Net[a]	
1871	961	1,075	+114	2	11	+ 9	+123
1872	1,183	1,162	21	4	5	+ 1	20
1873	1,261	1,131	130	25	2	− 24	154
1874	1,296	978	318	9	7	− 2	320
1875	1,207	1,022	185	8	11	+ 3	182
1876	1,307	1,208	99	20	8	− 12	111
1877	1,142	934	208	15	19	+ 4	204
1878	1,062	1,021	41	8	24	+ 16	25
1879	1,252	1,072	180	10	35	+ 25	155
1880	1,187	1,104	83	39	28	− 11	94
1881	1,240	1,165	75	92	28	− 64	139
1882	1,227	1,152	75	118	4	−114	189
1883	1,288	1,188	100	93	12	− 81	182
1884	1,319	1,071	248	25	25	....	248
1885	1,460	951	509	115	184	+ 68	441
1886	1,458	1,028	430	53	48	− 5	435
1887	1,605	1,002	603	85	107	+ 22	581
1888	1,175	892	283	67	75	+ 8	275
1889	1,391	951	440	50	55	+ 5	435
1890	1,320	896	424	58	67	+ 9	415
1891	1,127	877	250	54	63	+ 9	241
1892	1,173	958	215	44	54	+ 10	205
1893	1,191	964	227	43	94	+ 51	176
1894	1,095	1,027	68	108	32	− 76	185
1895	1,187	1,038	149	7	21	− 14	135
1896	1,180	1,052	128	10	20	+ 10	118
1897	1,192	1,092	100	9	23	+ 14	86
1898	1,413	1,203	210	3	20	+ 17	193
1899	1,506	1,431	75	5	16	+ 11	64
1900	1,700	1,338	362	7	17	+ 10	352
1901	1,718	1,374	344	12	16	+ 4	340
1902	1,724	1,444	280	35	10	− 25	305
1903	1,813	1,493	320	157	7	−150	470
1904	1,878	1,573	305	45	10	− 35	340
1905	2,016	1,705	311	170	8	−162	473
1906	2,514	1,906	608	142	8	−134	742
1907	2,881	1,949	932	168	6	−162	1,094
1908	2,913	1,729	1,184	28	21	− 7	1,191
1909	3,112	1,867	1,245	18	54	+ 36	1,209
1910	3,246	2,080	1,166	31	48	+ 17	1,149
1911	3,389	2,204	1,185	29	42	+ 13	1,172
1912	3,702	2,397	1,305	26	41	+ 15	1,290
1913	3,646	2,512	1,134	21	80	+ 59	1,075

* *Statistica del commercio.*

[a] The plus sign indicates a net surplus of exports; the minus sign, when used, indicates net imports.

none too secure a basis. On the eve of the great war Italy's economic future was distinctly problematical.

B. Service Items

Before attempting to reach a final estimate of the composition of Italy's national income and outgo before the war, it is necessary to consider the so-called service items, that is, payments for services rendered to Italians by foreigners or receipts from foreigners for services rendered by Italians. Gifts may for convenience be included in the same category.

Just when attention began to be directed to the means whereby Italy pays for the excess of her imports over her exports cannot be fixed with precision. There appears to have been some discussion on the subject in connection with tariff policies in the period before 1887; and gradually those outside the ranks of professional economists came to realize the significance to the national economic structure as a whole of the net earnings from services rendered by Italians to foreigners either in or outside of Italy. The elaborate investigations of Bodio and Stringher, already cited, represent the culmination of pre-war studies on the matter; and the results of Stringher have been generally accepted as authoritative by those who have dealt with the subject since his monograph was published, as, for example, Professors Mortara and Borgatta in the studies cited on page 259. We shall, therefore, briefly summarize the conclusions of Stringher at this point.

Foremost among the service items before the war were the remittances from Italians abroad. Emigrants took with them small amounts of money each year, but they sent home large sums. On the basis of bank records accessible to him, Stringher concluded that for 1910 about 500 million lire were remitted by Italians abroad, while some 50 million were either taken out or absorbed in transportation of emigrants.[4] The net amount for this item, then, he took to be 450 million lire.

[4] Stringher, in *Bulletin de l'Institut international de Statistique*, XIX, part 3, p. 103. More than half the remittances reached Italy

Next in importance among these items is the one covering the expenditures of tourists in Italy, set off against some small expenditure of Italians abroad. Probably the latter expenditure did not tend to exceed 30 million lire *per annum*, at that time; while foreigners, sojourning for longer or shorter periods of time in Italy, left something in excess of 500 million lire[5] as their aggregate expenditure in the country. Stringher, therefore, reduced to 450 millions the average net income for this item.

The postal money order receipts of Italy exceeded payments under the same heading during the years covered by Stringher by some 200 million lire: but, in order to make ample allowance for possible duplication, he reduced the net figure to 150 millions.[6]

So much, then, for the larger service items, aggregating a net favorable balance of about 1,100 million lire, which did not quite overcome the unfavorable trade balance of some 1,150 millions. But there are minor items, smaller in their aggregate amount, yet of great significance.

In the first place, there was a large amount to be sent out each year by way of payment of interest on the public debt. This was, however, diminishing according as refunding operations lowered the rate of interest, and helped, together with taxation (at the source), to stimulate the repatriation of the debt held abroad. Whereas in 1891–92, no less than 218 million lire had had to be sent out of the country by the Treasury,

in the form of checks, but a good deal of cash was sent by mail or carried on the persons of returning emigrants.

[5] Five hundred and thirteen million, according to Stringher's calculation. His starting point was a study of Luigi Bodio in the *Giornale degli economisti*, July, 1899, where Bodio concluded that 300,000,000 lire, net, were derived annually from the tourist item. For 1909–1910, some 900,000 persons entered Italy each year, and a study of the railroad revenues and average hotel expenditures led to the conclusion that the average per capita expenditure would range around 500 lire *per annum* on each foreigner entering (or sojourning in) the country.

[6] Stringher, p. 111. The net surplus of money orders in million lire, had run as follows in the five fiscal years beginning with 1906–1907: 185, 229, 185, 196, and 215.

five years later the amount was 135 millions; by 1901–1902, 102 millions, diminishing thereafter thus:[7]

	(million lire)
1902–03	82.6
1903–04	73.4
1904–05	68.3
1905–06	66.7
1906–07	60.7
1907–08	55.9
1908–09	56.7
1909–10	59.8

Stringher took 60 millions as the typical figure for this annual liability.

Then there were payments of interest on foreign holdings to securities other than those of the Italian government. Stringher's cautious investigation of the investments of foreigners in Italy led him to conclude that about 750 million lire (nominal value) of securities were held abroad. Roughly 300 millions were held in France, 180 millions in Germany, 150 millions in Switzerland, 50 millions in Great Britain, while in all other countries some 70 millions were distributed. Incidentally, 750 millions would represent about 10 per cent of the aggregate of Italian securities outstanding in 1909–10.

Before considering the amount of money which the payment of interest on these foreign holdings of Italian non-government securities must have represented, reference may be made to the parallel category; namely, of foreign capital actually invested in Italian business. Something just under 500 million lire were so invested, according to official records cited by Stringher.[8]

[7] The proportion of every 100 lire of interest on the public debt that was payable abroad, for each of the years given was as follows: 1891–1892, 47.50; 1896–1897, 27.29; 1901–1902, 20.68; and 1902–1903 and following fiscal years, 16.80, 14.97, 14.22, 13.65, 12.05, 10.99, 11.48, 11.86.

[8] Records of the fiscal authorities, as of September, 1910. The total was 492.5 million lire, invested by the following countries: Argentina, 1 million; Austria, 18.9 millions; Belgium, 167 millions; France, 124.5 millions; Germany, 25.6 millions; England, 107.9 millions; Switzerland, 42.8 millions; Russia, Spain, and Netherlands, 3.4 millions; and the United States, 1.1 millions. About 424 millions

But his own conclusion was that between 850 and 900 million lire were invested in Italy by foreign companies, operating branches and agencies there, while 470 or 550 millions were invested in the form of participation in companies of Italian nationality. A total, then, of 1,370 million lire come under the head of capital investment.[9]

On the 750 million lire of foreign holdings of Italian securities, Stringher thought that 40 million lire were annually sent abroad; on the 1,370 millions of capital investment, he calculated a yield of 7 per cent, or about 96 million lire, of which 85 million would be likely to emigrate. Consequently, some 125 million lire would annually constitute the payment for the use of foreign capital in Italian industry and commerce.

This sum of 125 millions, and the 60 millions annually sent out on the foreign holdings of Italian government securities make a total of 185 million lire.

Compensating this sum in part were the earnings of Italian capital abroad. For 1909–10, tax returns acknowledged holdings of about 236 million lire (166.7 millions in government securities, and 69.7 millions in other kinds of securities). Of course, this total was far below the reality. Stringher felt that in the years 1901 to 1910, some 250 millions had been invested abroad. The profits on foreign holdings of the Italian Treasury and Banks of Issue, aggregating 280 millions, averaged some 8 million lire in this period; while the profits from Italian participation in foreign agricultural, industrial, and commercial enterprises were thought by Stringher to exceed 40 millions. Finally there was the aggregate of foreign remittances to the Holy See, and like payments, estimated by Stringher at some

of the total constituted the capital of companies operating in Italy — traction, gas, electricity, and the like, and the rest was invested in insurance and navigation companies. As to insurance, foreign companies had the major portion of the business; in 1909, of 1,614 millions of lire written in policies, 930 million went to them, representing premium payments of about 36.4 million lire that year.

[9] Distributed, according to Stringher, thus: (in millions of lire) Belgium, 300; France, 300; Germany, 300; Switzerland, 280; England, 140; other countries, 50.

15 million lire, on the average. Thus, slightly more than 70 millions would have to be subtracted from the 185 million lire owed abroad, in order to arrive at the net balance. But the cautious Director General of the Bank of Italy, in order to be on the safe side, subtracted only 50 millions, leaving some 135 million lire as the net debit to be deducted from the 1,100 million lire of national income from the so-called service sources. With the deduction made, the income stood at 965 millions.

This conclusion, then, of Stringher stands as the most important outcome of his long and valuable study, and, in the main, remains authoritative for subsequent investigators. Something between 950 and 1,000 million lire were annually available, if his conclusion was exact, to cover the deficit in the trade balance;[10] and he formed the conviction that Italy's income during the first few years after 1900 was slightly in excess of the trade deficit, but that subsequently there was a small deficit. Changes in the volume of Italian indebtedness abroad during these years support this conclusion.

At this point, the statement of Italy's international accounts as estimated by Stringher may be conveniently presented in tabular form, as a preliminary step to the criticism of some of the items it comprises. Beside the estimates for the items which Stringher advanced as the best figures available, we have placed the corrected net figures as he thought that they should be expressed; and it will be seen that they do not correspond to the exact difference between the income and outgo items. His

[10] It was the view of Stringher that the excess of imports over exports was less than the statistical returns showed. The average annual excess from 1905 to 1907 was about 600 million lire and from 1908 to 1910 it was 1,200 millions. If the values of 1905 had still continued in use in 1910, Stringher contended the excess of 1,166 millions recorded for the latter year would have been 1,064 millions. The changes in official valuations were not calculated to keep step with the actual course of prices. Mortara, on the other hand, has pointed out that allowance must be made for the fact that part of Italy's exports went to her colonies, and did not, in consequence, result in foreign credits; and he is inclined to put the *real* trade deficit at from 1,200 to 1,250 million lire.

reasons for these differences have been amply indicated in the foregoing discussion. It should be said at this point that Director General Stringher is in no way responsible for the following tabular presentation; few writers in this field have been less consumed than he by the passion for setting up rows of precise figures which are often none the less approximate for all their minuteness.

STATEMENT OF ITALY'S INTERNATIONAL ACCOUNTS ABOUT 1910 AS CALCULATED BY BONALDO STRINGHER

(In millions of lire)

ITEMS	OUTGO	INCOME	APPROXIMATE BALANCE	
			OUTGO	INCOME
Commodities	3,070	1,920	1,100	..
Specie	20	50		
Travel expenditure	25	475	..	450
Remittances of Italians living abroad, and their payments for transportation and the like	60	515	..	450
Net surplus of postal money orders	..	200	..	150
Interest on securities, public and private, and other income from capital; also miscellaneous items	185	70	135	..
Totals (see page 269)			1,235	1,100

There was, then, as a rule, when Stringher was writing, a deficit of something like 135 million lire, occasionally falling below 100 million lire. This deficit was covered by fresh borrowing of various sorts, as, for example, the sale of securities, and the expansion of banking credits abroad.

Some criticism has been directed against the results of Stringher on the ground that he made insufficient allowance for the earnings of Italian shipping. While no lengthy digression into the growth and significance of the Italian merchant marine is

in order, reference should be made to the more important trend.[11]

Starting off with little or no shipping facilities, united Italy soon became impressed with its dependence upon foreign shipping. The government was induced to share the financial risk through subventions first to lines actually engaged in foreign commerce, later to all sorts of shipping, and eventually to ship construction. Subsidies certainly stimulated the development of a merchant marine, but the augmentation of trans-Atlantic migratory movements after 1880, and of the importation of fuel and food supplies in subsequent decades probably stimulated the development even more. Yet even in the years just prior to the war, British ships were handling a larger portion of international freight and passenger traffic to and from Italy than were those of Italian registry. Taking into consideration even the relatively high position of Italian sailing ships in the coastal trade of the Mediterranean littoral, barely a quarter of the foreign commerce of Italy was carried in Italian ships.[12] The situation, however, was tending to improve at about the very time that Stringher was writing.

But even though the merchant marine did not make money (or money enough) for those owning its securities — to judge by the insistence with which they fought for subventions — it, nevertheless, earned something from the point of view of the national economy as a whole. Apparently more was earned than Stringher allowed for in his calculations. In order to make clear what is meant by this statement, it will be necessary to take account of the relation between foreign trade returns and shipping earnings and outgo. Italy's imports are valued c.i.f.

[11] The record of the lengthy discussions relative to the merchant marine is shown by Züblin, *Handelsbeziehungen Italiens*, Jena, 1913, Chapter XVI. See also G. Roncagli, "L'Industria dei trasporti marittimi" in *Cinquanti anni di storia italiana*, Vol. I, Milan, 1911; Camillo Supino, *La navigazione dal punto di vista economico*, 3d ed., Milan, 1913; G. Arias, *Economia commerciale*, Milan, 1917, Part VII; E. Corbino, *Economia dei trasporti marittimi*, Città di Castello, 1926.

[12] Calculation of Züblin, p. 127.

(cost, insurance, freight) at the frontier; all freight charges, therefore, are included in the value of the imports. Exports, however, are valued f.o.b. (free on board) at ports of loading; shipping charges, consequently, are not included in the value of exports. Shipping charges, in the last analysis, are paid by the importing country. It follows, then, that although Italy's outgo for freight and like charges is — and, for 20 years before the war, was — larger than her income under these heads, nevertheless the outgo tended to be absorbed in the unfavorable trade balance, and the income remained unaccounted for in any detailed fashion.

The shipping charges included in the import figures consist of two sorts, those paid to Italian ships, and those paid to ships of non-Italian registry. Theoretically, the former should be cancelled, or offset by the calculation under income of an amount equal to the sums paid by Italian importers to Italian shipping. Charges paid on imports to foreign ships, however, represent outgo; but since they are already embraced within an outgo item, there is no occasion to provide for them. What it amounts to, in fine, is that account has to be taken of the earnings of *all* Italian ships engaged in foreign trade, and no provision has to be made for payments under this heading, inasmuch as they are already covered.

Since the data gathered by the authorities mentioned on page 271, or otherwise available, do not permit much to be done in the way of calculating the earnings of Italian shipping as a whole, some tentative estimate has to be made by approaching the problem from another angle. Recourse may be had to the relatively simple and dependable method employed in calculating German and French shipping earnings.[13] This method involves the following steps:

1. A percentage comparison of Italian and British shipping is made for the period of years under consideration. As a basis

[13] Moulton and McGuire, *Germany's Capacity to Pay*, 1923, p. 261 ff.; Moulton and Lewis, *The French Debt Problem*, 1925, pp. 342–5, 355–8, 366–7.

for comparison, the tonnage reported in Lloyds' *Shipping Register* is used, three tons of sailing shipping being considered the equivalent of one steam ton.

2. By means of this table, the earnings of Italian shipping are calculated from estimates of British shipping earnings that are available; and first, it is assumed that Italian shipping is as profitably operated, ton for ton, as that of British registry. But, in point of fact, the Italian merchant marine cannot expect to be as profitably operated as that of England, the very size of which gives it a decided advantage over the shipping of other countries. A reduction, therefore, should be made to allow for the comparatively lower earning power of Italian shipping. Such a reduction, of about 33⅓ per cent, is made here; and purely arbitrary though it be, it brings us nearer the probable earnings of the shipping of Italian registry.

The following table gives the data essential for estimating Italian shipping earnings according to this method for the decade mainly covered by Stringher's researches and also for the subsequent years so far as available; no material exists for the war years. The tonnage figures given for each country are the totals found by adding together the steam tonnage and one-third of the sailing tonnage. For the pre-war period, the earnings are in gold lire; for the post-war period, in paper lire, conversions being made at average rates of exchange for the pound and lira, during the years in question.

From these results, however, some reductions may be made, in order to make allowances for factors not taken into account. We have, therefore, deemed it well to take the lower figures for the groups of years most immediately in view, namely the period 1901–1910. For the five-year period 1901–1905, probably 60 million lire would serve fairly well, while for 1906–1910, 80 million lire would perhaps be the safest round figure to use; and for the last three years of the pre-war period, we incline to use about 110 million lire, as the average.

ESTIMATED ITALIAN SHIPPING EARNINGS

YEAR	MERCHANT TONNAGE (In thousands of gross tons)		ITALIAN TONNAGE AS A PERCENTAGE OF BRITISH	EARNINGS (In millions of lire)	
	British	Italian		British[a]	Italian
1901	12,587	811	6.4	1,512	65
1902	13,409	848	6.3	1,512	64
1903	13,903	863	6.2	1,638	68
1904	14,463	876	6.0	1,663	67
1905	14,932	890	6.0	1,840	74
1906	15,598	918	4.9	2,142	84
1907	16,286	955	4.9	2,268	89
1908	16,664	1,030	6.2	1,991	82
1909	16,775	1,081	6.4	2,092	89
1910	17,018	1,099	6.5	2,394	104
1911	17,486	1,132	6.5	2,520	109
1912	17,892	1,212	6.8	2,520	114
1913	18,415	1,357	7.4	2,520	124
1919	16,415	1,282	7.8	13,245	689
1920	18,184	2,159	11.9	25,520	2,025
1921	19,404	2,529	13.0	7,995	693
1922	19,158	2,755	14.4	8,172	785
1923	19,170	2,932	15.3	9,848	1,004
1924	19,005	2,757	14.5	13,120	1,268

[a] Converted to lire from estimates in pounds sterling from the following sources: 1901–1912, Hobson, *Export of Capital*, p. 171 ff. For the years 1911–1912, however, Hobson's estimate appeared unduly large and has been scaled down. As a basis for the 1913 figure, an estimate by Hobson appearing in *Economica*, May, 1921, p. 144, was used; for 1919, the *Economist*, October 11, 1919, p. 750; for 1920–1924, Moulton and Lewis, *The French Debt Problem*, pp. 366–7, and 379.

Evidently, then, Stringher's results call for modification to some extent, if not to the exact extent indicated by the foregoing discussion. It is possible, clearly, that the uncovered gap between all other varieties of income and all varieties of outgo, as he found the results to read, was bridged to a larger extent by shipping earnings than by any other factor.

Scanning such evidence as has become available since Director General Stringher's study was written, we are led to regard as substantially confirmed his estimate of the amount of Italian investments abroad; by the end of the fiscal year 1913–14, Italian

tax returns indicated capital investment in foreign securities in the sum of about 327 million[14] lire.

It is not unreasonable to suppose that the fairly rapid increase in official registration of securities between 1910 and 1914 reflected a considerable expansion in those years of holdings of securities in Central and Eastern Europe and the Levant, an expansion which in turn corresponded to the new interests Italian commerce and finance were acquiring in those regions at the time of the two Balkan wars and the Tripolitan War. If we take upper and lower levels of 400 and 500 million lire for the capital value of the investments in 1914, it is a fair assumption that the corresponding levels four years before could have been somewhere between 250 and 350 million. Professor Mortara remarks, in one of his unpublished memoranda, that there was one quite optimistic estimate of 800 million lire as the total investment in 1913–14. As for the years before the great conversion of the consolidated debt in 1906, it is doubtful whether Italian holdings of foreign securities amounted to significant totals. Some such funds, of course, must have existed, particularly in the period of difficulties in the nineties;[15] but if we allow

[14] By the end of the fiscal year 1914–15, the total so reported stood at 345 millions (indicating, perhaps, a real total of from 400 to 500 millions?) distributed mainly as follows, in millions of lire:

Russia	87.7	France	7.9
Austria	52.2	Spain	7.2
American countries	45.2	Rumania	6.6
Hungary	40.7	Egypt	6.0
Turkey	34.3	Belgium	2.4
Great Britain	10.9	Portugal	2.4
Germany	10.6	Tunis	1.5
Switzerland	10.2	All others	8.8
Japan	10.0		

See *Ministero delle Finanze: Alcuni indici della entità e delle orientazione del capitale italiano investito in titoli e valori esteri, 1909–1923;* Rome, 1924 (reprint from *Bollettino di statistica e di legislazione comparata*, XXII, 4), page 9.

[15] According to Ludovico Giusti, *I prestiti pubblici contratti all'estero*, Milan, 1921, p. 19, the process of repatriation of Italian securities, and of Italian investment abroad, began to be distinctly perceptible around 1895; fifteen years later, the movement of funds

for a total of such investments of about 50 millions around 1901, and think of it as exceeding 100 millions by 1905 or 1906, we are probably not far from the truth. Such a supposition would not only not conflict with the results of Stringher, but it would also accord with the known course and rhythm of Italian trade and finance in those years.

To what extent are the calculations of Stringher subject to correction with regard to foreign investment in Italy? It appears that the amount of foreign investments in Italy has been a matter of dispute before, as well as since, the war; there is reason to believe that the volume of such investments has been generally underestimated. The investment of foreigners in Italy had been proceeding more or less steadily for several decades prior to the war, as is evident from various Italian discussions of the problem.[16] It is known that investments in Italian textile industries and the acquisition of real estate and other property in Italy were growing rapidly in the early years of the century. Accordingly, we are inclined to view Stringher's estimate of 2,200 million lire for 1910 as a minimum figure. Ten years earlier the total was perhaps a billion less, or from 1,000 to 1,200 million lire.

Foreigners continued to invest steadily in Italy from 1910 up to the outbreak of the war. A conservative estimate of the total of foreign capital invested in Italy in 1914 would be from 2,500 to 2,700 million lire. Making allowance for Italian investments abroad — amounting to from 400 to 500 million lire — Italy was thus a net debtor on international account of something like 2,100 to 2,200 million lire.

We turn now to Stringher's estimates of Italy's international income. With reference to tourist income, we find that the records of the administration of the State railroads support Stringher's estimates of the number of foreign visitors and the

abroad was quite noticeable, being due in the main to the low yield on Italian domestic securities. This investment of funds abroad Giusti and others regard as premature.

[16] See, for example, Ricca-Salerno, *Teoria generale dei prestiti pubblici*, Milan, 1879.

average duration of tourists' visits. We therefore accept his estimate as approximately correct.

With respect to the net receipts from Italians employed abroad, new estimates for the pre-war period have been compiled by Professor Jannaccone, on the basis of an exhaustive re-examination of the pre-war records.[17] The figures submitted by Jannaccone are as follows; but it is to be borne in mind that they are not net figures, since the 60 million lire or more, on the average, carried away by departing emigrants, or expended by them in connection with their departure, have not been deducted by Jannaccone. The figures are in millions of lire.

1907	729	1916	575
1908	639	1917	833
1909	660	1918	873
1910	734	1919	2,173
1911	774	1920	4,253
1912	779	1921	3,372
1913	528	1922	3,054
1914	581	1923	2,521
1915	497		

Until the methods employed by Professor Jannaccone in arriving at these results are made available in detail, judgment as to their right to be substituted for those of Stringher must be suspended; and in view of the caution with which the latter conducted the inquiry on which his results were based, one must be inclined to accept new figures only after a thoroughly convincing demonstration. The allowance that Stringher made for cash enclosed in letters or brought into the country on the persons of emigrants temporarily or permanently repatriated is probably the chief item in his composite total where the factor of personal opinion, rather than the control to be exerted through

[17] This analysis was included as a preliminary to conclusions on later years, in a study of Professor Jannaccone on the international balance of 1923, of which use was made in its yet unpublished form by Professor Borgatta in the memoranda prepared in connection with the negotiations for the funding of Italy's foreign public debt. Borgatta expressed the opinion that these amounts were unduly high for the pre-war years, but more acceptable for the war years and later.

banking records, played any large part. Even here his estimate of the amounts likely to be remitted through the mail or brought in person by his countrymen to their relatives would obviously be worth more than the estimates of persons having less opportunity for contact with official sources of information in Italy, at that time, to say nothing of the estimates of foreigners.

The extent to which the volume of the remittances was affected by the character of the work available in foreign labor markets and the wage levels there prevailing has been emphasized in Chapters II and VII. Only an extremely small proportion of those emigrating from Italy were able so to establish themselves in the countries of immigration as to be in a position to send substantial remittances to relatives in Italy prior to the end of the nineteenth century. On the other hand, in so far as the sending of these remittances in due course made it possible for parents, wives, and children to join the wage earners abroad, the amount of the remittances would naturally tend to diminish automatically in the later years. The final factor, of course, bearing most importantly upon this situation would be the influence of depressions abroad such, for example, as those of 1907 and 1920–21. In short, the writer has found no estimate of the country's international income from remittances of this category for the half dozen years preceding the war, which is to be preferred to that of Director General Stringher.[18]

We may close this section by reproducing a tabular statement for the year 1913 which indicates how generally accepted the ideas of Stringher have been. Under the title of a "Balance

[18] Professor Francesco Coletti, in his contribution, "Dell' emigrazione italiana," to the collaborative work, *Cinquanti anni di storia italiana*, Vol. II, Milan, 1911, p. 238 ff., after making independent calculations, comes out at figures confirming those of Stringher; he mentions an estimate of Luigi Luzzatti of approximately 1,000 millions, but he characterizes it as "rather optimistic." It is doubtful whether Luzzatti ever made an independent study of the subject. Professor Roberto Michels was lately reported (*Journal des économistes*, October 15, 1925, p. 250) to believe the annual average in the last five years before the war to have been as high as 900 million lire.

Sheet of Italy's Foreign Payments," it appears in the magnificently executed volumes commemorative of the twenty-fifth year of operation of the Credito Italiano, *The Economic Resources of Italy, 1895–1920*, 2 vols., Milan, 1920, Vol. I, p. 218. Presumably it is the work of the distinguished economist and bank director, Mario Alberti. The changes were chiefly for the purpose of bringing Stringher's estimates down to date.

INTERNATIONAL INCOME AND OUTGO STATEMENT, 1913

OUTGO			INCOME		
Items	Millions of lire	Percentage	Items	Millions of lire	Percentage
Imports . . .	3,646	94.8	Exports . .	2,512	65.2
Payment of interest and dividends on foreign capital invested in Italy	150	3.9	Remittances .	500	13.0
			Expenditures in Italy of foreigners . .	450	11.7
Borrowings for investment purposes . . .	50	1.3	Money orders, etc. . . .	200	5.2
			Interest on foreign investments . .	70	1.8
			Miscellaneous .	120	3.1
Total . .	3,846	100.0	Total	3,852	100.0

C. Conclusions with Respect to Pre-War Accounts

On the basis of the examination devoted in the preceding sections of this appendix to the results of Italy's traffic in goods and services with the rest of the world, the following statement brings together the country's international accounts of income and outgo for the years 1901–1914. After what has been said in previous pages in regard to the necessarily approximate character of many of the figures used in arriving at these results, it is perhaps unnecessary to do more at this place than submit the statement as one of estimates, but of estimates that are believed to be based upon the best and most authoritative evidence.

INTERNATIONAL OUTGO, 1901–1914
(Yearly average in millions of lire)

PERIOD	COMMODITIES AND SPECIE	INTEREST, PROFITS AND COMMISSIONS	TOTAL
1901–1905 . . .	400	120	520
1906–1910 . . .	1,100	160	1,260
1911–1914 . . .	1,200	175	1,375

We present first the table of outgo, in averages for several years grouped together (two five-year periods and one period of four years). The precise figures for the excess of imports over exports are perhaps to be avoided; therefore, making due allowance both for the undependability of the official figures, and the colonial absorption of Italian exports without corresponding foreign credits for Italy,[19] we shall adopt the approximate figures of 400 million, 1,100 million, and 1,200 million lire respectively as representative of the commodity and specie deficit in the three periods.

What we have consolidated as the item of interest, profits, and commissions is based upon our discussion in the preceding section, the important conclusions of which may be stated as follows: The typical figure for payments abroad of interest on the public debt is taken as 80 million lire for 1901–1905, 60 millions for 1906–1910, and 60 millions for 1911–1914. The interest on private securities held by foreigners is placed at 25, 45, and 60 millions of lire for the three periods, respectively. The earnings of foreigners from Italian businesses and property owned by them are calculated at 50, 90, and 100 millions. Thus three totals of 150, 195, and 220 million lire result. But from these totals certain deductions have to be made to account for Italian receipts (under the same headings) from abroad. These are: Italian interest in foreign securities — perhaps 7 millions in the period 1901–1905, 15 millions for 1906–1910, and 30 millions for 1911–1914; Italian profits from foreign enterprises and prop-

[19] See note 10 on page 269.

erty, 25.35 and 40.0 millions, respectively; the earnings of government banks in foreign assets, 3, 8, and 5 millions, on the average, for the three groups of years. The deductions, therefore, work out at 35, 60, and 75 million lire for the three year-group averages; and the net deficits on the interest and profits items, consequently, are reduced to 115 millions as the yearly average for 1901–1905, 135 millions as the average for 1906–1910, and 145 millions as the average for 1911–1914.

But provision must be made for the commissions arising from banking and related transactions. Material on which to base even approximate estimates of the average amount of earnings of this category has not been available; perhaps it could not be gathered with any degree of satisfaction. Yet outlay and earnings under this heading there must have been. There is strong reason to believe that the outgo substantially exceeded income in the case of Italy, since before the war, in any case, her money markets were tributary to Paris and London; and intermediaries in Trieste and various Swiss cities participated in an appreciable portion of Italian foreign business. We shall follow the conservative practice of relating the earnings and outgo for commissions to the total foreign trade, and proceed on the assumption that the excess of the outgo over earnings in this connection amounted, prior to the war, to at least one-half of one per cent of the total foreign trade.[20]

The averages for the three groups of years on this basis would be approximately 17, 22, and 23 million lire.[21] In order, however, to avoid the specious exactitude that even these approximations suggest, and in order, also, to provide for miscellaneous minor outlays not taken into account, we shall venture to round out these figures so as to read 20, 25, and 30 million lire, respec-

[20] For references as to the percentages of British and French foreign trade represented by this category of earnings, see Moulton and Lewis, *The French Debt Problem*, 1924, page 345.

[21] 1901–1905, 16.7 millions; 1906–1910, 22.1 millions; 1911–1914, 22.9 millions. For the immediately preceding five-year periods, the growth would have been indicated as follows: 1886–1890, 11.7 million lire; 1891–1895, 10.6 millions; 1896–1900, 13 millions.

tively. The total outgo, then, under interest, profits, and commissions, would have averaged 120 million lire from 1901 to 1905, 160 millions from 1906 to 1910, and 175 millions in the four years 1911–1914.

We now present the table of income, for the corresponding periods. The varieties of income are grouped under four main headings: remittances, tourists' expenditures, shipping, and miscellaneous (postal orders and the like).

INTERNATIONAL INCOME, 1901–1914
(Yearly average in millions of lire)

PERIOD	REMITTANCES FROM ITALIANS ABROAD	EXPENDITURES OF TOURISTS	SHIPPING	MISCELLANEOUS (including postal money orders, gifts, and the like)	TOTAL
1901–1905	300	350	65	125	840
1906–1910	450	450	85	150	1,135
1911–1914	450	425	115	200	1,190

The remittances from Italians living permanently or sojourning in other countries to their relatives in Italy increased rapidly during the first decade of this century; and they were not inconsiderable in the preceding 10 years. As indicated on page 278, we incline to adhere to the figures 450 million lire suggested by Stringher for the fiscal years 1909–10, and 1910–11, as the net excess of such remittances over the aggregate of sums sent abroad to emigrants, or carried out of the country by them. If we consider this figure of 450 million lire as representative of the net earnings from this source, on the average, throughout the period 1906–1910, we shall have made allowance, after all, for the possibility that in the years nearer the end of the pre-war period the *true* total under this heading was larger than Stringher's computations would indicate; and we shall have provided, moreover, for the slump in the earnings that was caused by the return to Italy of many thousands during and after the depression of 1907.

As for the five-year period 1901–1905, we feel certain of two things: first, that the initial earning power of those who were leaving Italy a quarter of a century ago, or more, to seek their fortunes abroad was limited; and second, that as the majority of them were young men, their tendency was to be married as soon as possible, to set up their families in the countries of immigration, and then to diminish the volume of their remittances. If, therefore, the sum of 300 million lire be taken to represent the excess of remittances and cash brought into Italy by returned Italians over outgoing remittances and cash, it will be a conservative figure reasonably commensurate with the growth and earning power of the stream of emigration. Finally, in the four years before the war there was in all probability a steady increase, until by 1913 the net earnings may have reached a half billion lire; but the second half of 1914 served, of course, to cut down receipts sharply. Professor Borgatta's investigation leads him to place the remittances (and more especially cash brought in person) at 400 millions for 1914. The average for the four years, then, would come out somewhere between 450 and 475 million lire.

The expenditures of foreign tourists and sojourners in Italy have always exceeded those of Italian travelers abroad; and there can be little doubt of the pre-eminence of this one source of international income for many years, perhaps generations, before the European war. It was only at the end of the war that there were indications of a relegation to second place of this item, in favor of the remittances we have just been discussing; but, as will be shown a little later, this possibility soon disappeared. We have taken the calculation of Stringher for 1908–1910 as a basis, and have set down 450 million lire as the average aggregate of earnings from this source over the period 1906–1910. When we consider the first half of the decade, we have to bear in mind the much less developed state, at that time, of the hotel and cognate branches of the "tourist industry." It is probable that in the earlier years, what with the greater popularity of Central and Western European

resorts,[22] the immature organization in Italy of the business of catering along modern lines to large numbers of visitors, at certain seasons, and the persistence of prejudices against health conditions in Italy,[23] the international income did not exceed, on the average, 350 million lire per annum.

The last four years of the period under review doubtless witnessed a steady increase in the inflow of travelers, until the second half of 1914 suddenly cut off this source of revenue almost altogether; but it must be recalled that in consequence of the Tripolitan war, foreign visitors tended to shorten their stay in Italian possessions, and the expenditure of Italians abroad—on official or private business connected in some way with the Italo-Turkish war — tended to be augmented. As for the first half of 1914, the authoritative conclusion of Borgatta is that earnings under this heading did not exceed 300 million lire; an average, therefore, for the four years, would approximate 425 million lire.

We have discussed the shipping earnings at length when analyzing the study of Stringher,[24] and it will be sufficient here to submit three averages for the respective year-groups used in the present section. International income from shipping for 1901–1905 was, perhaps, 65 million lire *per annum;* and, on that basis, the earnings for 1906–1910 were 85 million, and those for 1911–1914 about 115 million.

The miscellaneous category of income is as unsatisfactory as catch-all categories usually are. It is made up, for the most part, of the considerable volume of postal money order remit-

[22] As for example the greater drawing power of the French capital, for transatlantic travelers, during the World Exposition of 1901. South and North American tourists tended before the war to enter Italy — if they went there at all — through France. See note 5, p. 266.

[23] The conquest of malaria and the modernization of the water supply of metropolitan centers — two things that make the first decade of this country notable — probably did more to improve Italy's earnings from travelers and sojourners than any other important development.

[24] See page 270.

tances to which allusion was made in our reference to Stringher's discussion. These remittances embrace payments for a wide range of purposes — gifts, the review subscriptions and related operations of learned societies, and many others. They include, probably, some of the receipts of the Holy See, and of the religious orders of the Catholic Church, the headquarters of most of which are at Rome; but the fact has to be recalled that the major portion of the income of the Holy See, the religious orders, and the missionary organizations is cancelled out by the disbursements which all of these entities effect abroad — especially in what may be described as the missionary world. If we conclude that the fourth category may have brought to Italy, on the average, net international income of 125 million lire in the years 1901–1905, 150 millions in 1906–1910, and 200 million in 1911–1914, we are making fairly generous allowance for any sources of income not otherwise accounted for, such, for example, as the proceeds of the international railroad freight traffic, which even before the war had begun to amount to something.

The combination of the income and outgo tables presents the following results:

NET INTERNATIONAL BALANCE, 1901–1914
(Yearly average in millions of lire)

PERIOD	INTERNATIONAL INCOME	INTERNATIONAL OUTGO	DEFICIT
1901–1905	840	520	+320[a]
1906–1910	1,135	1,260	125
1911–1914	1,190	1,375	185

[a] There was a surplus in this period, on the average.

The significance of the results of these tables is fairly obvious. Italy's population was managing, on the whole, to furnish its own food and raw material supplies in the early years of the decade and a half before the war, and was able to pay for the excess of imports over exports by reason of large earnings from services rendered to foreigners in or outside of Italy. A com-

fortable surplus of income existed. This, then, was the period when Italy's prosperity enabled her ministers of finance to carry through the large refunding operations with the public debt, with important consequences in the direction of the repatriation of foreign holdings thereof.

Then, little by little, the country began to import much more than it exported and to expand its industrial plant — in the textile, metallurgical, engineering businesses, and in other lines. The earnings from services rendered to foreigners increased, but the use of foreign commodities and capital increased more rapidly, and came to exceed the income. This deficit was covered by borrowing — not public borrowing, of course, but the use for shorter or longer periods of banking credits in foreign money markets, credits opened in connection with all of the sorts of transactions with which we have been dealing, and operating in widely diverse ways. The movement was accentuated particularly as the eve of the war drew near, and the dependence upon foreign supplies grew more marked.

The substantial accuracy of this general analysis is tested by the movement of foreign exchange. From 1903 to 1908, the paper lira was practically at par with gold; but from 1909 on, as Professor Mortara and others have pointed out, the discount became steadily more perceptible.[25] There was no notable inflation in this period which could account for the depreciation of the lira in terms of gold.[26] Only one explanation will adequately account for this steady, though slight, depression of the lira: Italy's demand for foreign credit exceeded the supply of foreign

[25] AVERAGE RATES ON PARIS, 1901–1913
(Price in lire of 100 francs)

1901	104.30	1906	99.94	1911	100.52
1902	101.21	1907	99.97	1912	100.93
1903	99.95	1908	100.00	1913	101.77
1904	100.12	1909	100.42		
1905	99.94	1910	100.51		

[26] The paper currency was increased by about 616 million lire between 1904 and 1908, and by about 485 millions from 1909 to 1913; yet the expansion in the business of the country, and the rise in gold prices would have made even a larger increase seem reasonable.

bills of exchange normally capable of being offered on the basis of her sales of goods, and rendering of services, to foreigners. The situation was not at all critical, but it none the less confirms the estimates of the trend of the international accounts during this period.

The net result of our survey of Italy's international accounts just prior to the war is that the uncovered debit margin was increasing by one or two hundred million lire every year. It would be conservative perhaps to assume that at the close of the period between 1908 and the end of 1914 the volume of commercial and banking indebtedness outstanding and unliquidated at a given moment had swollen to the proportions of 500 million lire; and it showed no prospect of diminishing. The burden, then, of from two and one-half to three billions of foreign capital investment was not the only burden to be assumed in consequence of the transformation of the main emphasis of Italy's national economy from agriculture to manufacturing industry. The "floating" indebtedness of Italian commerce and finance to foreign money markets was tending steadily to rise, because the domestic requirements were increasing more rapidly than the international earnings.

III. THE INTERNATIONAL ACCOUNTS: 1915–1919

As the following table indicates, the war resulted in a tremendous excess of imports over exports, amounting for the five

TRADE BALANCE, 1914–1919 *
(In millions of paper lire)

YEAR	COMMODITIES			BULLION AND SPECIE			NET DEFICIT
	Imports	Exports	Deficit	Imports	Exports	Deficit	
1914 . .	2,923	2,210	713	27	20	7	720
1915 . .	4,704	2,533	2,170	..	..	..	..
1916 . .	8,390	3,088	5,302	..	..	..	..
1917 . .	13,990	3,309	10,682	..	..	..	..
1918 . .	16,039	3,345	12,694	..	..	..	..
1919 . .	16,623	6,066	10,558	..	..	..	..

* *Documenti sulla condizione finanziaria ed economica dell'Italia; Annuario statistico italiano.* 1919–1921 (Supplement to 1924).

years from 1915 to 1919 to 41.4 billion paper lire. There is no point in including paper lire merchandise figures and gold lire specie figures in the same table. Accordingly, the imports and exports of bullion and specie are shown separately.

BULLION AND SPECIE TRANSACTIONS *
(In millions of lire)

YEAR	IMPORTS	EXPORTS	NET[a]
1915	17.0	3.00	−14.00
1916	0.5	1.53	+ 0.93
1917	0.3	0.43	+ 0.04
1918	0.7	0.03	− 0.67
1919	6.2	1.03	− 5.23

* *Ibid.*

[a] Plus sign indicates net exports; minus sign indicates net imports.

There is reason to believe, however, that the actual deficit was less during these years than these official figures indicate. The inspection of trade returns was less effective, and the calculation of values by official commissions tended during the period of constant increases in prices to exaggerate the imports. Accordingly, Professor Borgatta[27] thinks that the total deficit could not have exceeded 40 billion lire.

GOLD VALUE OF FOREIGN TRADE, 1915–1919
(In millions of gold lire[a])

YEAR	IMPORTS	EXPORTS	EXCESS OF IMPORTS
1915	4,010	2,187	1,823
1916	6,675	2,355	4,320
1917	9,693	2,282	7,411
1918	10,813	2,143	8,670
1919	10,367	3,495	6,872
Total	41,558	12,462	29,096

[a] Converted on the basis of monthly dollar exchange rates.

[27] As set forth in an exhaustive memorandum on the Italian balance of payments since the war included in the official memoranda of the Italian government prepared in connection with the negotiations for the funding of the foreign public debt.

The gold value of the trade figures for these years, based upon the monthly averages of dollar exchange, according to Borgatta, is shown in the table on p. 288.

Somewhat different results are reached by Mortara in his previously cited study on Italy's international balance of payments; apparently annual exchange averages are used, instead of monthly averages.

GOLD VALUE OF FOREIGN TRADE, 1915–1919
(In millions of gold lire[a])

YEAR	IMPORTS	EXPORTS	EXCESS OF IMPORTS
1915	3,904	2,102	1,802
1916	6,586	2,424	4,162
1917	9,443	2,234	7,209
1918	11,147	2,325	8,822
1919	8,644	3,154	5,490
Total	39,724	12,239	27,485

[a] Converted on the basis of annual dollar exchange rates.

The deficit would thus appear to amount to 29 billion gold lire, according to Borgatta, and 27.5 billion according to Mortara. But Borgatta was of the opinion that when allowance is made for the faulty official figures, the deficit would amount to some 26 to 28 billion. We are, therefore, content to take as a round number 27.5 billion gold lire as representing the trade deficit.

The shipment of specie from Italy during this period was for two purposes. There was, first, an ordinary outflow used in meeting obligations in cash. There was, second, a large movement of gold from Italy to London in accordance with a special agreement reached in 1915, referred to in Chapter IV. This was for the purpose of buttressing Italian credit abroad. But since these deposits of gold in England, amounting to 562.3

million lire[28] still belonged to Italy, they are not counted in the official records of specie movement. Inasmuch as the ordinary gold exports amounted to only 19 million lire they may be omitted from this calculation as of negligible importance.

The interest account is difficult to appraise accurately. The disbursements for the National Treasury for interest payments abroad are matters of record, but the amounts are not large. There were about 70 million lire, paper, say, 50 millions gold, sent abroad in these years for interest and redemption payments on public debt incurred prior to the war. There was also some Treasury buying of pre-war securities available in French, Belgian, British, and neutral money markets; amounting, it is believed, to from 200 to 300 million paper lire, perhaps 150 millions, gold. To be sure, this is a capital transaction, but since the amounts involved are small we include them for convenience along with the interest computation.

Payments on account of dividends and profits diminished, as there were numerous sales of Italian businesses by foreigners to Italians, and because remittances to persons in Central Europe practically ceased. From 600 to 700 million paper lire, or about 500 millions, gold, were apparently remitted from Italy on this account. As an offset to this there were some Italian receipts from interest and profits on Italian investments abroad. These must have fallen off from the pre-war figures, since the bulk of Italy's investment holdings were in Central and Eastern Europe. Five hundred million paper lire would represent a generous allowance for the aggregate of this period. This leaves a net

[28] According to Bonaldo Stringher, in *Memorie riguardanti la circolazione e il mercato monetario*, Rome, 1925, p. 20: "The Italian Treasury had to deposit in London specie to the value of 562,360,000 gold lire. Of this sum, 158,745,550 lire represented metal possessed and owned by the Treasury itself: 272,114,450 lire belonged to the Treasury, but, as they were allocated to the general fund of the provincial treasuries, they were included in the reserves of the Bank of Italy which had placed a corresponding amount of notes at the disposal of the Treasury. Finally, the sum of 131,500,000 lire represented a loan to the Treasury by the three banks of issue." Under the terms of the British-Italian debt settlement, Italy is gradually to receive back this gold. (See page 422.)

outgo on this account of not more than 200 millions in paper, or about 150 million gold lire.

Account must also be taken of the carrying charges on the considerable volume of unfunded indebtedness of individuals and banks to foreign lenders or merchants to which reference was made at the end of the preceding section. This we estimated had risen to a full half billion of gold lire by the close of 1914. By no available means could this floating indebtedness have been liquidated prior to May, 1915, when Italy entered the war; and it is probable that it steadily increased during the war period. It is fair to assume that the carrying charges must have been as much as 40 million gold lire per annum or 200 millions for the five-year period, equivalent to perhaps 300 million paper.

Commercial and financial commissions, again figuring on the basis of one-half of one per cent of the total annual trade, must have amounted to as much as 400 million paper lire, perhaps 350 millions gold.

Turning now to the income items, we find that all of them were profoundly affected by the war. The tourist traffic as such fell off each year more strikingly, and the number of sojourners in Italy was reduced to relatively slender proportions. On the other hand, certain expenditures took place on behalf of foreign troops and government officials in Italy; but these were much more than counterbalanced by the expenditure of Italian troops in France and of Italian officials abroad. In 1919, there was a substantial revival of the tourist trade; probably as much as 600 million paper lire were derived therefrom. The net result for the entire period, according to Borgatta, is an income of around 1,000 million paper lire, and an outgo of about one-fifth as much, leaving a net credit for the years 1915–1919 of about 800 million paper lire, or 500 million lire, gold.

The remittances of emigrants and other Italians sojourning abroad greatly increased in nominal value, as will be seen by reference to the table shown on page 277. The total for the five-year period exceeds 4.9 billion lire, according to Jannaccone, but these are lire of widely varying purchasing power, and when

converted to gold lire on the basis of annual averages, would be equivalent to something in excess of 3 billion and less than 3.4 billion gold. We have adopted 3.2 billion gold lire as the nearest approximate figure.

The basis for calculating shipping earnings is unsatisfactory, since official tonnage data are unavailable. Professors Borgatta and Jannaccone have, however, reached the conclusion that some 25 million tons of freight were carried by Italian ships in this period, and since rates increased strikingly, they calculate an aggregate credit of from 700 to 1000 million gold lire. Borgatta carefully stresses the hypothetical character of this estimate. We incline to adopt the lower limit. For passenger traffic, the records are more helpful. Some 820,000 passengers were transported to and from Italy on Italian ships in the years 1915–1919, as against 185,000 carried on ships of other registry, and the net income is estimated to have been 600 million gold lire. Aggregate shipping earnings, therefore, are conservatively calculated at about 1,300 million gold lire for the years 1915–1919. The earnings from transportation of goods and persons by land likewise increased in these years, even though the volume of such traffic diminished; at least 200 gold lire should be credited as net receipts under this heading. These items total 1,500 million gold lire, or about 2,700 millions paper.

There does not appear to have been any noteworthy amount of net income from other sources during this period. The sale of property within Italy produced very little. The income of the Catholic Church from abroad suffered the severest sort of decline. The receipts prior to the end of 1919 from the United States Treasury, by way of insurance and allowance remittances under the Act of October 6, 1917, amounted to about 8 million dollars, or 40 million gold lire. Since the bulk of these payments came in 1919, they amounted to perhaps as much as 80 million paper lire. All told, the miscellaneous items may have aggregated 50 millions gold or 100 millions paper.

Before turning to the borrowing operations of the war period it will be well to summarize the foregoing discussion in order to

indicate the extent of the trade and service deficit which had to be covered. Using only gold figures for the purpose, the trade deficit amounted to 27,500 million lire, interest items to 550 million, and commissions to about 400 million, a total of 28,400 million lire. On the income side, remittances yielded 3,200 millions, tourists' expenditures about 500 millions, shipping and land transportation services about 1,500 millions, and miscellaneous something like 50 millions — making a total of 5,250 millions. There was thus a total deficit of 23 billion gold lire.

The most important borrowing operations were the credits opened by the Treasuries of Great Britain and the United States, aggregating about 19.2 billion gold lire, or about 25.6 billion paper lire.[29] The credit from foreign banks to the government, and the proceeds of foreign subscriptions to Italian internal loans yielded, down to the end of 1919, in the neighborhood of a billion lire paper, or about 750 million lire, gold (much of the yield having been received while the lire was still pegged).

The purchase and sale of securities is calculated by Borgatta to have represented, for the five years, 1915–1919, a *net* yield to Italy of about a billion paper lire, or some 700 million gold lire. There was believed to be a substantial prospect of expansion of Italian industrial output and commercial activity in the last year of the period under review; and probably a good deal of foreign money — perhaps more than Italian economists allow for — went into the country's business in that year.

There was considerable contraction of private indebtedness abroad and, what amounted to the same thing, expansion of Italian bank deposits opened by foreigners — although not yet on the scale that marked the growth of these items in 1920, and again in the years after the slump of 1921. Unfortunately, the systematic collection of data regarding these banking transactions did not begin until after 1920. Borgatta, however, estimates that down to the end of 1919, as much as 1.5 billion paper

[29] Approximately 187 million gold lire more were obtained from Great Britain and the United States in the year 1920; see p. 299.

lire, or 1.1 billions, gold, had been derived from this source. Finally, there was some exportation of currency in these years, at least in 1919. Borgatta has placed this figure as in excess of 13 billion paper lire, or about 850 millions in gold.

If we add up these various estimates of borrowing operations and capital transactions we get a total of 22.6 billion gold lire. Since the aggregate deficit to be covered by borrowing operations was approximately 23 billion gold lire, these figures do not appear seriously in error. This is perhaps not surprising in view of the fact that the definitely known figure of 19.2 billion gold lire for the government loans from foreign governments makes up the bulk of the total. A gap does exist, it is true; but it may be due to the approximate nature of the estimates. Otherwise, it would indicate an increase, if anything, in the floating indebtedness.

For convenience, we now present a summary statement of the international income and outgo accounts for the war period and also of the borrowing transactions. The estimates are given in terms both of gold and paper.

SUMMARY OF INTERNATIONAL OUTGO AND INCOME, 1915–1919

	Millions of gold lire		*Millions of paper lire*	
Outgo:				
Excess of commodity imports	27,500		40,000	
Interest and dividend payments	550		870	
Commissions	350		400	
Total		28,400		41,270
Income:				
Remittances from Italians abroad	3,200		4,900	
Tourists' expenditures	500		800	
Shipping and related earnings	1,500		2,700	
Miscellaneous	50		100	
Total		5,250		8,500
Deficit		23,150		32,770

SUMMARY OF BORROWING OPERATIONS, 1915–1919
(In millions of lire)

	Gold	*Paper*
Loans from foreign governments	19,200	25,600
Other government loans	750	1,000
Sale of securities	700	1,000
Private borrowings	1,100	1,500
Sale of currency	850	1,300
Total	22,600	30,400

It may be noted that the gold figures showing the amount of the deficit and the amount of the receipts from borrowing operations are much closer together than the corresponding paper figures. This discrepancy emphasises the approximate character of the estimates, which involve in many cases incomplete data and in all cases conversions from paper to gold at varying rates of exchange. Nevertheless the figures for borrowing operations furnish a genuine check upon the estimates of the trade and service accounts; and the surprising thing is that the figures come as close together as they do.

The effect of the war upon Italy's international economic position is best revealed by the extent to which her foreign indebtedness has increased. The Italian government appears to have borrowed from foreign governments and private sources down to the end of 1919 approximately 20 billion gold lire, and private borrowings and sales of securities and currency aggregated at least two and a half billion gold lire more.

IV. THE INTERNATIONAL ACCOUNTS: 1920–1925

The period beginning with the winter of 1919–20 and closing in the winter of 1925–26 represented for Italy a most unusual cycle of economic changes. At the beginning of 1920, the country was near the peak of an extreme inflationary boom; in the winter of 1925–26, there was again a period of very great activity, hardly, however, to be characterized as a boom. In the intervening years, there had come about a rapid fall, a long period of stagnation attended by serious economic, social. and

political disorders; then there had followed several years of relative stability giving way to another period characterized by currency difficulties. There follow the import and export figures as officially reported for the years 1920 through 1925.

TRADE BALANCE, 1920–1925*
(In millions of paper lire)

YEAR	IMPORTS	EXPORTS	DEFICIT
1920	26,822	11,774	15,047
1921	17,227	8,275	8,952
1922	15,765	9,302	6,463
1923	17,189	11,086	6,103
1924	19,388	14,318	5,070
1925	26,147	18,275	7,882

* *Documenti sulla condizione finanziaria ed economica dell'Italia; Annuario statistico italiano*, 1919–1921, supplement to 1924; and for 1925, official dispatches.

Inasmuch as the specie figures, being in gold lire, are not comparable with the figures for imports and exports which are expressed in paper currency, it is necessary to show the former separately as was the case with the war years.

BULLION AND SPECIE TRANSACTIONS*
(In millions of lire)

YEAR	IMPORTS	EXPORTS	NET DEFICIT
1920	18.5	0.49	−18.03
1921	11.3	2.1	− 9.1
1922	42.0	4.3	−37.6
1923	27.5	3.8	−23.7
1924	23.2	2.0	−21.2
1925	80.7	1.0	−79.7

* *Ibid.*

A. 1920

1. *Items of Outgo.* The excess of imports over exports in the boom year 1920 was enormous, as the table just shown indi-

cates. Nearly all writers dealing with the topic feel certain that a liberal slice should be taken off the figure of 15,047 million shown as the excess; Borgatta inclines to an estimate of 13 billion paper lire, say, 3,200 million gold lire. Although our table on page 38 uses the average annual gold equivalent of the officially recorded excess, we shall conservatively adopt, for the present purpose, the round figures of 13,000 millions, paper or 3,200 millions, gold.

Payments for interest, profits, and dividends are estimated by Borgatta as between 100 and 200 million paper lire in excess of any international income of like character. To this, he adds an interest figure of some 40 or 50 million lire for debts of Italian banks and individuals to foreign banks. The last figure we consider rather a small allowance. We concluded in the preceding section that the private indebtedness abroad (including in this category foreign balances in Italian banks exclusive of savings bank deposits in Italy belonging to Italians resident abroad), had risen at the beginning of 1920 to something over one billion gold lire. Interest, renewal commissions, and dividends on this sum must have been fully 60 million gold lire in 1920 — much nearer to 300 million lire paper than to the 50 millions just mentioned.

For the Treasury's operations abroad, and foreign expenditures of the navy and like services, various disbursements were necessary. The latter group of payments amounted to 500 million lire, and some 35 million of lire were sent abroad by the Treasury in payment on pre-war public debt coupons. It will be not unreasonable to set down 450 millions paper, say, 135 millions, gold, as the debit for this item.

Commercial commissions, conservatively estimated as representing outgo to the extent of one-half of one per cent of Italy's total foreign trade, would give us a result of perhaps 200 million paper lire or 50 millions, gold.

2. *Items of Income.* For shipping earnings, Borgatta computes earnings of only about 500 million lire,—on the basis of a careful comparison of the volume of freight and the number of

passengers carried by ships of Italian and foreign registry, and their average rates. The method used in the computation of the table which appears on page 274 gives a much larger figure, — some 2,000 million paper lire. Such a result was inevitable in view of the passing under the Italian flag of a large portion of the Austro-Hungarian merchant marine in the course of the year. But since only a small part of this shipping could have been used throughout the year, it cannot be assumed that shipping earnings were augmented in the same proportion as the tonnage. We feel inclined to take 750 million paper lire as a figure likely to be the outside limit of the net earnings of Italian shipping in 1920. As the average value of the gold lira, in terms of paper, in 1920 was 4.07, 180 million gold lire would be a fair approximation to the equivalent of the sum indicated.

The remittances from abroad rose to their peak in 1920. Jannaccone's laboriously compiled figures give a total of 4,250 million lire for the year as the net credit on this item, and in this estimate Borgatta and others concur. A considerable lower estimate was reached after exhaustive study in the winter of 1923–24 by C. Arena,[30] who felt certain that the remittances in 1920 could not have exceeded 3,000 millions net. Jannaccone's estimates are, however, based upon official material of the sort to which Stringher had had access in prosecuting his pre-war researches. Probably 4,000 million lire, paper, would be a figure fairly close to the facts, and its gold equivalent somewhere between 950 and 1,000 million lire.

The expenditures of tourists and sojourners revived rapidly in 1920 as a source of net income for Italy. From three to four hundred thousand foreigners passed through Italy and their expenditures amounted to some 2,500 millions. The expenditures of Italians abroad were not far from two-fifths of this sum; and Borgatta arrives at 1,500 millions, paper, as the net income here, say from 350 to 375 million gold lire.

[30] His study is summarized in the *Economic Review*, London, February 15, 1924, pp. 147–9.

We may now summarize the so-called current items. The commodity and specie items result in an outgo of 13 billion lire paper, or 3.2 billions, gold. The government remittances and payments also result in net outgo, amounting to 0.55 billions paper (0.135 billions gold), and payments on account of interest, profits, dividends, and miscellaneous commissions, another net outgo of 0.7 billions paper (0.16 billions gold): which gives a total outgo of 14.25 billion paper lire, or 3.5 billion gold lire. For net income items, we have: shipping earnings, 750 million paper lire, or 180 million gold lire; remittances, 4,000 millions paper, or 975 millions, gold; tourists 1,500 millions, paper, or 375 millions, gold — in all 6,250 million paper lire, or 1,530 millions gold lire. A deficit, then, of roughly 8 billion paper lire, or about 1,970 million gold lire, had to be covered in order to balance the international accounts.

3. *Borrowing Operations.* The capital transactions were large. From foreign governments were derived the proceeds of about 187 million gold lire[31] — about 1,050 million paper lire; from abroad came foreign currencies tendered in subscription to the great domestic consolidation loan of 1920 — Italy's sixth national loan issued since 1915 — to an amount of 1.7 billion paper lire; while other credit operations of the government brought in foreign money aggregating an additional 550 to 650 million paper lire.

Professor Borgatta calculated that the receipts from the sales of Italian securities, business properties, real estate, currency, and other capital resources amounted to 2.5 billion paper lire. Offsetting this sum, he estimates the expenditures of Italians, for the acquisition of similar assets abroad to have been some 300 million lire. We accept the figure of 2.5 billions as the income from capital transactions; but we are inclined to believe that the estimate of 300 millions is too low. Professor Borgatta gives the precise figure of 100 million paper lire as the outlays of Italians in purchasing foreign securities, basing his estimate

[31] The purchasing power of which, in terms of gold lire of 1913, was equivalent to but 87 million lire, Borgatta points out.

on tax and banking records. In all probability, however, there were considerable acquisitions of foreign securities which never left a trace in either place. At the same time there was no small volume of Italian money finding its way into the purchase of Central European securities and properties.[32] We are inclined to think, therefore, that at least 600 million lire should be set down for the outgo, giving a net balance of 1.9 billions paper lire, amounting to some 450 to 475 millions in terms of gold.

The indebtedness of individuals to foreigners appears to have increased greatly. Borgatta states that the lira balances of foreigners in Italian banks rose above 1,700 million lire by the end of 1920. Italian banks are known to have secured fairly large credits abroad in this year of superficial promise; and the close relations of Italian banking and industry in the post-war period undoubtedly stimulated this operation in the boom year 1920. Some — perhaps much — of the speculative activity indulged in by Italians in Central Europe to which we have referred above — was carried on with borrowed money. After reviewing the development of 1920, we cannot escape the belief that some 2,500 to 3,000 million paper lire of new private indebtedness was created in a wide variety of forms.

We present in tabular form the results of the preceding discussion.

SUMMARY OF INTERNATIONAL INCOME AND OUTGO, 1920

	Millions of gold lire	*Millions of paper lire*
Outgo:		
Excess of commodity imports	3,200	13,000
Interest, profits, dividends, and commissions	300	1,250
Total	3,500	14,250

[32] For example, the records of Schöneberg-Berlin real estate sales to foreigners during the period of the market decline indicate that Italians were substantial purchasers. See Moulton and McGuire, *Germany's Capacity to Pay*, 1923, pp. 300–302.

Income:		
Remittances from Italians abroad	975	4,000
Tourists' expenditures	375	1,500
Shipping and related earnings	180	750
Total	1,530	6,250
Deficit	1,970	8,000

SUMMARY OF BORROWING OPERATIONS, 1920
(In millions of lire)

	Gold	*Paper*
Loans from foreign governments	197	1,050
Other government borrowing abroad	565	2,300
Sale of securities	475	1,900
Private short-term borrowing	660	2,700
Total	1,897	7,950

The borrowing operations, then, covered the deficit in the income and outgo accounts in such fashion that Italy's gross liabilities, when the year 1920 closed, were some 1,900 million gold lire greater than they had been a year earlier, that is, they aggregated approximately 3.6 billion gold lire of private indebtedness of all descriptions, and close upon 21 billions, gold, of government indebtedness of all descriptions.[33]

B. 1921

1. *Items of Outgo.* The excess of imports over exports declined in 1921 to some 8 or 8.5 billion lire, paper, roughly equivalent to 1.9 billion gold lire.[34]

Interest on public debt securities was reported by Professor Jannaccone as 87 million lire.[35] The interest here in question,

[33] Without taking into account any of the interest on the debts to Great Britain and the United States, which was not being paid in those years.

[34] The trade figures for the year 1921 are open to more challenge than usual owing to the change in the method of estimation which took effect July 31, 1921; see p. 496.

[35] Under the title *Saldi della bilancia dei debiti e dei crediti tra l'Italia e l'estero*, the Jannaccone study on the international income and outgo for 1921 and 1922 appears in the *Documenti sulla condizione finanziaria ed economica dell'Italia*, issued by the Minister of

it should be borne in mind, relates to registered holdings of the pre-war public debt of Italy scattered in foreign countries; it does not include either the interest on the obligations to foreign government treasuries or on the short-term obligations accumulated during and after the war.

Another outgo item reported by Jannaccone and accepted by Borgatta is that of 135 million paper lire for the expenditures abroad in 1921 of the Railroad Administration. This may be accepted as exact.

A third item appears among Italian estimates of these minor outgo figures, namely, 157 million paper lire as interest on bank indebtedness. The figure hardly seems large enough. It will be recalled that we calculated the aggregate of private borrowing abroad at the close of 1920 to be at least 3.6 billion gold lire. Assuming that the moderate rate of return, interest or profits, on this amount was a moderate 5 per cent, the outgo would be 180 million gold lire. In terms of paper — at 4.55, the annual average rate of exchange prevailing in 1920 — the equivalent would be approximately 800 million lire. To this may be added a certain amount for commercial commissions, using the basis of computation previously employed, namely one-half of one per cent of the value of the total foreign trade for the year, which will give a figure of 28 million gold lire, or 125 million paper lire.

In summary, therefore, for outgo on account of profits, dividends, interest, and commissions, we have a total of approximately 900 million paper lire, or about 200 million gold lire; the interest on the public debt amounted to 87 million and outlays by the Railroad Administration to 135 million. These figures aggregate about 1,100 million paper lire, or roughly 240 million gold lire. For conservatism, we may take the round number of one billion paper, or about 220 millions gold. Since the government undoubtedly spent something for accommodation from foreign bankers and since other agencies than

Finance in December, 1923. It was analyzed by Mortara in *Rivista bancaria* of February 20, 1924, p. 73 ff.; compare League of Nations *Memorandum on Balance of Payments*, Geneva, 1924, Vol. II.

the Railroad Administration incurred considerable expenses in these years which are not covered in the commodity or other records, it is surely conservative to adopt the two figures just given as the paper and gold aggregates for this entire category. The total trade and service outgo, therefore, amounts to 9.5 billion paper lire or 2,120 millions gold.

2. *Items of Income.* The tourist traffic did not show any material increase, in 1921, owing to sluggish conditions in the countries furnishing the bulk of Italy's visitors. Yet the advantages of traveling in a country of depreciated currency tended to attract or to hold those to whom such considerations are important. The estimate of Professor Jannaccone, which appeared in a computation that has been incorporated in several subsequent official publications, was 2,000 million paper lire net. Mortara and Borgatta accept the figure, and we adopt it here, placing the approximate equivalent in gold at 440 millions.

The remittances from Italians employed abroad were calculated by Jannaccone in his original study at 4,500 million paper lire, but he is reported by Borgatta to have reduced this estimate to 3,370 millions in the recalculations made in connection with the official memorandum mentioned in note 17 of this Appendix. It is not clear just which figure Borgatta thought to be the more nearly correct; but Mortara rejected 4,500 millions in his article in the *Rivista bancaria* and set 2,500 millions as the upper limit, although in a subsequent private memorandum he admitted the possibility of something in excess of 3,000 millions. In point of fact, few years present so many difficulties in this connection. The slump in business, particularly in trans-Atlantic countries, forced many thousands to return to Italy. On the other hand, these repatriated Italians brought with them funds which temporarily increased the international income. We deem 3,000 million paper lire, say 660 million gold lire, as a conservative figure to take for remittances from Italians abroad in 1921.

With regard to the earnings of the merchant marine, Jannaccone calculated a net outgo of 336 million paper lire on passenger traffic, and a net income of 950 millions on freight traffic, or a

total net income of about 600 millions in paper. As this accords fairly well with the result shown in the table on page 274, we incline to use it here, with an approximate gold equivalent of 135 millions.

3. *Borrowing Operations.* It is particularly difficult to arrive at satisfactory results in trying to calculate the magnitude of borrowing operations in the year 1921. It was a period of drastic curtailment and a writing off of losses in creditor as well as debtor countries The state of Italian business was one of extreme stagnation and this would have been reflected much more strikingly in the import records but for the fact that imports tended to expand by reason of bargain conditions, both as to credit and price, which foreign manufacturers offered in their incontinent haste to dump surplus stocks into Italy before the new protective tariff law should take effect.

In the first place, there was no appreciable amount of foreign public borrowing, only about 500 million paper lire, or 110 millions, gold, being derived from the sale of public securities. The known sale of private securities and similar alienations of capital assets brought in roughly 300 million paper lire, or 65 million gold lire. It does not seem possible to estimate the aggregate of private unfunded borrowing as any less than 3 billion paper lire, that is to say, about 700 millions, gold, for in no other way does it appear that the deficit would have been covered. Jannaccone estimated the new indebtedness incurred in 1921 as about one billion lire, paper. Perhaps this was not intended to take account of renewals; and it may well be the case that the volume of extensions and consolidations of commercial indebtedness quite considerably exceeded the new unfunded borrowings on commercial account.

With regard to the sale of currency, estimates are more conjectural than usual because of the sudden and unreasoning flight, first in one direction and then another, from the collapsing currencies of Eastern and Central Europe.

Finally, a word is needed with regard to the reparation receipts. Professor Jannaccone includes 110 million paper lire

to cover this account. But the inclusion of reparation receipts is of interest only in connection with computations of the amount which Italy would have had to expend if these receipts had not come in; there is no proper place in any statement of international income and outgo for indemnity proceeds of this character.[36]

The two adjoining tables present in summary form the results for the year 1921.

SUMMARY OF INTERNATIONAL INCOME AND OUTGO, 1921

	Millions of gold lire		*Millions of paper lire*	
Outgo:				
Excess of commodity imports	1,900		8,500	
Interest, profits, dividends, commissions, and miscellaneous	220		1,000	
Total		2,120		9,500
Income:				
Remittances from Italians abroad	660		3,000	
Tourists' expenditures	440		2,000	
Shipping and related earnings	135		600	
Total		1,235		5,600
Deficit		885		3,900

SUMMARY OF BORROWING OPERATIONS, 1921
(In millions of lire)

	Gold	*Paper*
Government borrowing abroad	110	500
Sale of securities	65	300
Private short-term borrowing abroad	700	3,000
Total	875	3,800

In summary, therefore, Italy's position at the end of 1921 may be described as that of a debtor to foreign governments to the extent of 21 billion gold lire, and a debtor on other account than that of the state (that is to say through the issue of securities and the disposal of capital assets) to the extent of approximately 4.5 billion gold lire.

[36] See p. 312.

C. 1922

Towards the end of 1922, the period of pronounced depression gave way to one of relative stability, tending towards a slight expansion. In a sense, this period was one of both consolidation and reconstruction. The foundation for it was laid in the early months of 1922, but as much as a full year had to pass before the transition to a new tendency was generally conceded by even well-informed observers. As we shall point out later, the period extends over the years 1923 and 1924 and in many ways is best treated as a whole. Some of the material, however, is available for the successive years, and accordingly, provisional statements of the international income and outgo accounts are submitted for each of the years mentioned.[37]

The statistical data needed in a discussion of this sort are never as complete as one would desire, but they become much less satisfactory according as one comes down into more nearly contemporary years. For they comprise many items that, in the nature of the case, cannot be measured until a considerable time has elapsed. Yet one ought to mention here one advantage to be derived from the study of the more recent years, namely,

[37] The principal source for the years 1922–24 is the admirable memorandum by Professor Gino Borgatta, to which allusion was made in note 17 on page 277. Unpublished studies of Professors Jannaccone and Mortara have been availed of, as well as the latter's article mentioned in note 35 on page 302. Estimates for 1922 were made by Jannaccone in the *Documenti* cited in note 35, and for 1923 in a source cited by Borgatta under the title, *La bilancia dei debiti e crediti tra l'Italia e l'estero nel 1923*. For 1924, there are estimates of Mortara and Borgatta, available only in the form of unpublished official memoranda. The discussion of Professor Borgatta is valuable and we have felt justified in accepting most of his conclusions. Most of the estimates for major items submitted by Jannaccone (and concurred in by Borgatta) appear to be beyond challenge, and form the basis for the figures used here; but we depart in a few instances from these calculations, not so much because of superior sources of material — obviously scholars with official channels at their command must have more data than foreigners could hope to secure — as because of our inability to account in any other way for the symptoms of lowered economic resistance indisputably discernible in Italy's condition ever since the war, including the years 1923–1926.

the fact that the recollection of the course of developments as well as of the changes in prevailing impressions as to such developments is likely to be a good deal fresher than can possibly be the case after some years have elapsed. All that it is safe or reasonable to attempt, in a word, is the approximate estimation of aggregate income or outgo, depending, in the main, upon those particular transactions, or categories of transactions, concerning which we have more or less precise information. Errors in the minor items to some extent offset each other.

1. *Items of Outgo.* For a few years beginning with 1922, there was a steady decline in the excess of imports over exports. Public borrowing abroad ceased for several years. These two facts together exerted a marked influence upon Italy's international accounts, apparently putting an end to the perennial deficit, if only for a year or two. According to the table on page 38, the excess of imports over exports amounted in 1922 to 6,463 million lire, paper. It is believed that this excess should be reduced so as to take care of unreported or not fully reported items among the exports. It would be conservative, therefore, to estimate the excess of imports as 6 billion paper lire, or approximately 1,450 million gold lire.[38] Further reduction would hardly be admissible since, in all fairness, allowance ought to be made for Italy's exports to her colonies quite outweighing her imports therefrom.

The outgo for payments on account of interest, dividends, profits, and various commissions will require a brief digression with regard to the capital operations. There seems to be ground for adopting a larger estimate of the amount of foreign capital invested in Italian industry than has been put forward by any of the Italian economists writing on this subject. This is not unnatural because it is sometimes difficult for those in a given country to get a good perspective of the aggregate amount of foreign capital being invested therein even though they have some notion of the direction of investment. Italians were

[38] The annual average value of the gold lira in terms of paper lire for 1922 was 4.0918.

rather surprised to discover the breadth and depth of pre-war German investments in Italy, as they did in some measure in 1915–1918. They look around and see the hum and expansion of industry, and while they allow for this or that foreign investment which happens to have been perhaps spectacular in its form of placement, they are perhaps less likely to hear of the scarcely perceptible infiltration of foreign money into their industries than, say, the foreigner who has frequent contact with other foreigners concerned with Italy. Naturally, foreign interests acquiring footholds in this or that Italian industry are not seeking any more attention than they have to receive. There are obvious reasons for this — the danger of stirring up nationalistic reactions against foreign capital, the possibility of adverse fiscal policies, and the like. But capital inexorably seeks the largest returns compatible with security, and the establishment in Italy of an authoritative government with a positive program of equitable protection for productively employed capital has not failed, since 1922–1923, to draw funds to Italy from other countries where labor costs were substantially higher than in Italy. The magnitude of these investments is difficult to determine, since they have taken quite diverse forms, many, no doubt, having grown out of the transformation of unfunded commercial debts, others from the employment of lira bank balances, and still others developing as mere equities resting upon foreign bank credits accorded to Italians for speculative operations at home, in Central Europe, or elsewhere. What concerns us here is the fact that the charges on account of this foreign credit has steadily exceeded the *earnings* of Italy under the same heading.

Payments of Treasury interest abroad amounted according to Jannaccone to about 115 million paper lire. The government departments (railroad, postal, naval, and others) had foreign settlements to make, totaling 135 millions.

The excess of outgo over income under the heading of profits and dividends cannot, in our opinion, have been less than from 150 to 200 million paper lire in 1922; the interest payments on the accumulated short-term private indebtedness to foreigners

can hardly have been less than in 1921, as we estimated it, for in place of the older debt which was repaid or carried along, new borrowings were being effected in much the same volume. If this were the case, the interest outgo probably amounted to 450 million paper lire.[39]

We feel certain that the outgo for commercial commissions and other service charges connected with the commodity movement has steadily exceeded the income from this source; but, in view of the growing importance of Italian commercial, banking, and shipping organization abroad, we are disposed to reduce from roughly one-half of one per cent to a quarter of one per cent of the total trade, the estimate of the outgo under this heading — which thus amounts to 60 million paper lire, or 15 millions, gold, for 1922.

Aggregating the items in this category for 1922, we have a net outgo of from 900 to 950 million paper lire, roughly equivalent to 225 million lire, gold. The total net outgo therefore would appear to have amounted to 6,925 million paper lire, that is to say, 1,675 million gold lire.

2. *Items of Income.* For the remittances of Italians resident abroad, Professor Jannaccone's earlier estimate for 1922 was 3,400 million paper lire. This estimate was subsequently reduced to 3,000 as the net figure. Other students of this foremost source of Italy's international income submitted calculations ranging from 2,035 million lire to 3,600 million for 1922.[40] We

[39] Jannaccone estimated only 150 million paper lire for the item of interest on foreign capital and bank indebtedness. A careful study of the extent of Italian investments in foreign public and private securities so far as taxation records disclose them, from 1909–10 to 1922–23, is given in an article in the *Bollettino di statistica*, "Alcuni indici della entità e della orientazime del capitale italiano investito in titoli e valori esteri . . . 1909–10 a 1922–23." Recorded holdings of French securities rose from 8 to 280 millions, Belgian from 2 to 9 millions, Hungarian from 41 to 53 millions, Rumanian from 6,000 to 15 millions; while Russian holdings fell from 88 to 24 millions, Austrians from 52 to 35 millions, Turkish from 34 to 5 millions, Egyptian from 6 to 3 millions.

[40] Professor Nicefero, of Naples, 2,539 millions, *Economic World*, New York, November 24, 1923, p. 735; Professor Arena, 2,035 millions,

think that even 3,000 million lire is an outside figure for this year in view of the fact that not so many Italians returned to Italy as in former years and that the size of the remittance was steadily tending to become smaller. Only the depreciation of the currency conceals the actual shrinkage in these remittances that is proportionate to the new connections which those of Italian birth or descent tend more and more to form in the countries in which they or their forebears have settled. We deem it justified to take 2,500 million paper lire as the net credit for 1922, roughly 615 million gold lire.

The number of foreign visitors was not particularly striking in 1922. Professor Jannaccone calculated 2,500 million lire as the net income for 1922, and this figure seems more acceptable than higher and lower alternatives suggested by others.[41]

For the earnings of the merchant marine, in 1922, Jannaccone reached an estimate of earnings on freight and passenger traffic of 9,640 million paper, but from this was deducted a round sum of 200 million to cover the expenditure of the merchant marine in foreign ports, leaving the net earnings for the category about 450 million. According to the method used in preparing the table shown on p. 274 the net earnings for 1922 would have been 785 million. We feel inclined to accept substantially the figures of Jannaccone, modifying them so as to leave the net earnings

Economic Review, London, February 15, 1924, p. 147; Avv. Mazzuchelli, of the Credito Italiano, 3,600 millions, discussed in *Economist* London, January 5, 1924, p. 19; Professor Mortara, 2,500 to 1,900 millions, *Rivista bancaria*, February 20, 1924, p. 86–8 (but subsequently, in unpublished memoranda, conceding the possibility that the maximum may have exceeded 3,000 millions).

[41] Professor Niceforo placed the limit at 2,000 million for 1922, while Mortara uses upper and lower limits as far apart as 1,600 and 2,600 million lire. Dr. M. Avancini in his study, *Entità e svolgimento del traffico turistico in Italia*, Rome, 1925, submitted the following data, based on official records in the main: for 1922, total number of tourists 604,000; average length of stay, 20 days; average aggregate daily expenditure, 175 lire. But this does not take into account the 20,000 to 40,000 persons classified as relatively permanent sojourners — students and others — as estimated by Mortara. Avancini's estimate of total expenditure of 2,100 million lire for 1922 may well be advanced to the figure adopted in the text for this item.

at about 500 million paper, having a gold equivalent of approximately 120 million. It was not a brilliant year for the merchant marine of any flag.

Finally, we have a miscellaneous income item of varied composition. A surplus of postal money order receipts over and above emigrants' remittances was set down by Jannaccone as amounting to 275 million paper lire. Next comes the net income from remittances to the Holy See and the various missionary establishments of the Catholic Church, regarding which precise information is not at hand. Inasmuch as the major portion of remittances on account of administration of the Catholic Church takes the form of banking transactions wherein transfer of international balances are often times not effected through Italy at all, it does not seem prudent to allow any large margin for this item except in special circumstances such as attend the observance of Jubilee Years, as, for example, 1925. If we allow 50 million lire for each of the three years beginning with 1922 as the aggregate net income for the Holy See, the Society for the Propagation of the Faith,[42] and other Catholic Church entities, we shall have made ample provision for the net contribution to Italy's international income under this heading. If we adopt 400 million paper lire as the total for this category in 1922 we shall have covered not only the items mentioned by others which may have escaped attention;[43] and of this sum the gold equivalent would amount to about 98 million lire.

[42] This great missionary society for many years had its headquarters at Lyons, but moved to Rome several years ago. Its receipts from abroad and its disbursements in the mission field practically balance. The same is true of the majority of ecclesiastical establishments other than teaching institutions.

[43] Here might belong, for example, such of the receipts from foreign countries by way of payments of military allowances and pensions as have not been fully discounted in determining the net debit of Italy on disbursements of Government administrations. Borgatta has regularly allowed for the receipts from the United States Government's disbursement in Italy of funds under the provisions of the War Risk Insurance Act of October 6, 1917, as amended; and his allowance fits in with the figures reported below. But there may be other unreported receipts of like character.

As of interest, we include the following statement kindly furnished,

The income items, therefore, roughly amount to 5,900 million lire, paper, or approximately 1,435 lire, gold.

3. *Borrowing Operations.* In 1922, there were sales of new government securities estimated by Jannaccone to have yielded 460 million lire as against repayment of debt amounting to 413 million paper lire. The difference, therefore, of 47 million lire is to be set down as the almost negligible item of government borrowing for the year.

So far as private borrowing is concerned in 1922, Professor Jannaccone has submitted no estimate whatever, but on the contrary proposes an item of 87 million paper lire by way of repayment of private indebtedness or new investment made abroad on private accounts. But if there is nothing radically wrong with the estimates for current income and outgo at which we have arrived, the aggregate borrowing on private account in one form or another must have approximated a billion lire for the year under discussion. What portion of this amount should be allocated for the sales of currency or property it is next to useless to conjecture, and the writer is of the opinion that the major portion must have been derived from short-term borrowing on private account.

At this point a word must be said as to the inclusion, in computation of capital transactions for the years 1922–1924, of receipts by Italy under the Treaties of Peace. According to Borgatta, Italy's receipts under the Treaty of Versailles and its subsidiary instruments, down to the end of 1924, amounted to 600 million gold lire — nearly all in the form of goods. The few cash transactions were bookkeeping transfers. The point is made by Borgatta that there is no basis for including these payments of Germany in a statement of international outgo and income except with a view to show to what extent the necessity was obviated of incurring liabilities for goods such as coal, and other German

under authorization of the Director of the Veterans' Bureau at Washington, by the Chief of its Audit Section: From August, 1918, through July, 1925, some 598,000 checks were sent to Italy, totaling in value $20,045,173.60. The average total of remittances in the years 1922–1924 was just under $2,100,000.

deliveries essential to the maintenance of industry. This observation is sound, but in the light of the not inconsiderable waste of coal and other German deliveries under the Treaty of Versailles, in various countries, one wonders whether Italy would not simply have managed to do with much less coal, if she had not received it from Germany. At this point we think it of interest to insert a table which has been reproduced in the British Department of Overseas Trade *Report* on Italy for 1925, page 106.

PRINCIPAL ARTICLES IMPORTED INTO ITALY ON REPARATION ACCOUNT DURING THE YEARS 1923, 1924, AND 1925*

COMMODITY		QUANTITIES		
		1923	1924	1925
Coal	metric tons	1,479,736	3,608,710	1,722,804
Coal tar	"	15,363	2,093	1,430
Tar oils	"	6,118	2,793	1,635
Sulphate of ammonia	"	3,888	14,884	....
Wood (common)	"	79,917	2,952	....
Wood (props)	"	10,069	....	....
Nitrate of sodium (raw)	"	....	1,461	....
Nitrate of ammonia (impure)	"	....	1,431	....
Sugar	quintals	47,876	32,041	19,096
Cellulose	"	26,689	5,838	....
Electric bulbs	number	1,162,034	....	....
Dyes (synthetic)	quintals	13,227	9,523	10,379
Pharmaceutical chemicals	"	468	168	160
Organic chemical products	"	1,454	518	408
Inorganic chemical products	kilogs.	1,789	717	645
Synthetic perfumery	"	2,926	494	888
Articles made of wood	quintals	1,228	9	3,255
Linoleum	"	318	....	....
Glass	"	271	6	....
Insulators for electricity	"	342	347	....
Aeroplanes	number	16	....	....
Tugs	gross tonnage	6	1,966	5,263
Locomotives and tenders	quintals	1,794	1,434	37,475
Axles	"	....	50	....
Shells for artillery	"	113	3,215	....
Explosives	"	....	308	....
Scientific instruments	"	323	828	164
Machinery and apparatus	"	1,873	1,030	7,944
Goods made of iron and steel	"	3,983	11,624	32,752
Velvet	"	118	....	....
Horses	number	4,426	....	....
Cattle	"	13,184	....	....
Sheep	"	7,208	....	....

* Figures taken from the official *Statistica* of December, 1925.

Jannaccone includes the receipts from Germany in his various computations. His reason for doing so is not set forth, but after all, there is some point in taking cognizance of such receipts, even if it involves a modification of some of the customary international outgo and income classifications.

One might contend, not unreasonably, that room should be made for a category of gifts, or tribute, since they represent an augmentation of the resources of the recipient not at all unassimilable to the credited proceeds of other operations. Certainly, no success would attend the effort to construct an international income and outgo statement for ancient and medieval times which failed to provide for post-war tribute. We do not, however, intend to include reparation receipts in the statements for the several years, especially since, prior to November 1, 1924, the reparation accounts lend themselves very poorly to adjustment in chronological divisions.

We are now ready for a brief tabular presentation of the results for 1922.

SUMMARY OF INTERNATIONAL INCOME AND OUTGO, 1922

	Millions of gold lire		*Millions of paper lire*	
Outgo:				
Excess of commodity imports	1,450		6,000	
Interest, profits, dividends, and commissions	225		925	
Total		1,675		6,925
Income:				
Remittances from Italians abroad	615		2,500	
Tourists' expenditures	615		2,500	
Shipping and related earnings	120		500	
Miscellaneous	95		400	
Total		1,445		5,900
Deficit		230		1,025

SUMMARY OF BORROWING OPERATIONS, 1922

(In millions of lire)

	Gold	*Paper*
Government borrowing abroad	10	47
Private short-term borrowing and other forms of capital transactions	230	1,000
Total	240	1,047

The volume of new debt created in 1922 could in no sense be the cause of profound alarm. So far as the great bulk of the public indebtedness was concerned, the only change which it underwent during this year was the rapid compounding of unpaid interest.

D. 1923

1. *Items of Outgo.* Again, in 1923, as in the preceding year, the excess of commodity imports diminished. The official figures show 6,103 million paper lire for the excess; and we adopt 5,500 millions, or 1,305 million gold lire, for the present purpose.[44]

Jannaccone's figures for 1923 show 100 million paper lire as the net expenditures of government departments abroad and 200 millions, paper, as the interest disbursement abroad. These two figures must be accepted as based on official records.

The items of interest, dividends, and profits continued to show an excess of outgo over income in 1923, but there were factors which operated to check the rapid growth of the excess.

The disbursements for interest, dividends, and profits were thought by Jannaccone to show an outgo for 1923 of about 250 million paper lire; against this Borgatta sets income of 176 million paper lire representing the proceeds of foreign holdings of like character. The net outgo, therefore, would be about 75 millions, paper. As in the case of other years in this period, we feel impelled to point out that the constant reappearance of the item "bank credits" as a source of new capital which the Italian scholars predicate for the years 1922–1924, and for 1925 as well, points to the carrying over of heavy interest charges inherited from wartime and before, aggravated by attempts at speculation and at participation in Austrian, Polish, and other foreign loans to which we shall presently allude. We adopt 450 millions as the interest and renewal charge item on the excess of foreign indebtedness over foreign credits.

Adding to this sum, 200 millions of Treasury interest and 100

[44] The annual average value of the gold lira in terms of paper was 4.221 in 1923.

millions of departmental disbursements abroad, as well as the minor but not wholly negligible item for commercial commissions of 70 millions, we reach an aggregate of 800 million paper lire, in round numbers, or something like 195 million gold lire, as the debit in this entire category. Our total of outgo, then, would come out at 6,300 million paper lire, or in gold, about 1,500 millions.

2. *Items of Income.* For the remittances from Italians employed abroad, the figure for 1923 is about the same in paper as that for 1922, namely, 2,500 millions.[45] The gold equivalent, because of the decline in the lira, was naturally less than in the preceding year: say, 600 millions.

The tourists began to flock into Italy in 1923, but an appreciable proportion of them came from Central Europe and other continental European countries, and their spending power was somewhat limited. Moreover, Italian spending abroad began to figure a little more largely than previously. The figure of 2,500 million paper lire, or 600 millions, gold, represents not only the Jannaccone-Borgatta result, but that of other students of the subject as well.[46]

Earnings from the services of the merchant marine began to mount rapidly in 1923. Jannaccone's inquiries show net traffic earnings of about 950 millions as against net foreign disbursements on account of the merchant fleet of about 55 millions, or a net income of about 900 millions. The table on page 274 gives 1,000 millions, fairly close to Jannaccone's estimate, which we are inclined to accept. The gold equivalent was about 210 million lire.

[45] The estimates vary widely, however, as for example: Professor Virgilii of Siena, 2,650 millions, in *Economic Review*, London, July 18, 1924, p. 53; Professor Bachi, 3,600 millions, in Gold and Silver Inquiry Commission's *Report on European Currency and Finance*, Washington, 1925, Vol. I, pp. 367–8; Professor Mortara, 3,300 million, in memorandum cited previously.

[46] As, for example, Avancini, cited in note 41 on page 310. His figure for the number is 700,000 tourists; the average sojourn and average daily expenditure amounted to about what they had been in 1922.

As for the miscellaneous category, what we stated with regard to 1922 appears to hold good for 1923. Some 400 million paper lire, or 90 millions gold, were probably earned for this group of items.

The total of the income items, therefore, appears to amount to about 6,300 million lire in paper, or 1,500 millions, gold. This is the precise total which we reached for outgo. Apparently, then, Italy's accounts balanced for the first time in more than a dozen years. In view of the fact that we have taken only the most conservative estimates for income, we are inclined to believe that an approximate balance was reached. The steadiness of the exchange confirms this conclusion.

3. *Capital Operations.* While there was no traceable deficit in the income and outgo accounts in 1923 to be covered, certain capital transactions occurred. Jannaccone reports repayment of government debt amounting to 247 million paper lire; but Borgatta offsets this by the sale of government domestic securities totaling 250 millions. Purchases of foreign securities by Italians amounted to 200 millions, so far as known,[47] against which appear recorded sales of securities to foreigners yielding 90 millions, leaving a net outgo of 110 million paper lire for private transactions in securities. The repayment of bank credits in 1923 was set down by Jannaccone as amounting to 380 millions, paper, and new credits yielded 70 millions, giving a net outgo of 310 millions. When these items are brought together, there is a total of something over 400 million paper lire — 90 millions in gold — representing the reduction of foreign obligations or the increase of foreign assets.

Since current accounts showed no net income to provide for this capital disbursement, we conclude that there must have been unrecorded borrowings of some 400 million paper lire.[48]

[47] Consisting, mainly, of the Austrian reconstruction loan, said to involve an outlay of about 186 million paper lire.

[48] It is interesting to note that Borgatta handled this discrepancy in the account by setting down "a purely accounting item" of 430 million paper lire composed of "sundries" in which he thought the "wiping-out of speculative accounts in foreign currencies" played the major part.

This interpretation lends support to the hypothesis that in 1923 the volume of debt created in 1922, together with what had come down from the past, was larger than was currently supposed and thus called for the conversion and renewal operations that are observed to have occurred in 1923.

In the table below we submit the tabular results for 1923.

SUMMARY OF INTERNATIONAL INCOME AND OUTGO, 1923

	Millions of gold lire		*Millions of paper lire*	
Outgo:				
Excess of commodity imports	1,305		5,500	
Interest, commissions, and miscellaneous	195		800	
Total		1,500		6,300
Income:				
Remittances from Italians abroad	600		2,500	
Tourists' expenditures	600		2,500	
Shipping and related earnings	210		900	
Miscellaneous	90		400	
Total		1,500		6,300

SUMMARY OF CREDIT OPERATIONS, 1923
(In millions of lire)

	Gold		*Paper*	
Receipts:				
Presumptive borrowings on private account sale of currency, or other capital alienation	90		420	
Total		90		420
Outgo:				
Purchases of foreign securities	30		110	
Repayment of bank indebtedness	60		310	
Total		90		420

The year 1923, therefore, closed with a distinct improvement in Italy's position, although it must be remembered that a huge gold public debt to foreign governments was still hanging over her and interest charges were accumulating.

E. 1924

1. *Items of Outgo.* The unusually abundant harvest of 1923 was reflected in the lower excess of imports over exports for 1924. Again allowing for the unreported exports, we adopt 4,500 million lire, paper, in place of the official excess of 5,070 millions; and since the gold lira stood — as an average for the year — at 4.4365 paper lire, the gold equivalent of the excess may be calculated as in the neighborhood of one billion lire.

Government interest disbursements abroad amounted to about 185 million paper lire, and expenditures abroad on administrative account to about 160 millions. This gives a total of 345 millions of government disbursements.

The payments of interest on foreign investments and the like are calculated at 130 to 140 million paper lire — using as a basis a 4 per cent rate and including among the investments the average amount of credits opened by Italian banks for foreigners. Some Italian economists regard the estimate as rather conservative; this is our own impression, partly because a low rate of interest was used by Borgatta, and partly because our analysis of the preceding years shows a larger accumulated floating indebtedness than Borgatta and others had estimated to be the case at this period.[49] We, therefore, incline to take 400 million paper lire as the interest item. The profits on property and business operations actually sent abroad and not reinvested in Italy, Borgatta calculates as 70 to 80 millions, which may be taken as a fair estimate. On the other hand, he calculates receipts of 110 millions from something like 1,000 millions in foreign securities held in Italy (noting, however, that many dividend payments are not available for the balance of income and outgo as they remain undisturbed in the countries of investment). Deposits of Italians abroad yielded 30 to 40 millions in interest, and some 35 millions of foreign profits were received.

If, therefore, we deduct the aggregate of these other income

[49] Subsequent developments in the exchange market may have led to a revision of these estimates of Italian economists.

items — say about 180 million paper lire — from the aggregate of outgo items in this category as indicated above, namely, 470 or 480 million paper lire, we have a net aggregate outgo of 300 million paper. To this must be added something to cover commercial commissions and related charges arising from the movement of commodities. In accordance with the reasons heretofore indicated, we find a net outgo of about 85 millions. If we add to the 385 million paper lire representing the net aggregate outgo for non-governmental interest, profits, and commissions, the totals involved in governmental payments abroad, namely, 185 million lire on government interest account and 160 million lire on administrative account, we find a total of 730 millions, or say, in round figures, 725 million paper lire — about 165 million gold lire. Finally, consolidating all the outgo items, we have an aggregate of 5,225 million paper lire which would be equivalent approximately to 1,165 millions in gold.

2. *Items of Income.* The remittances begin at last to show, even in terms of paper lire, the effect of the factors making for their decline to which we have heretofore alluded. Borgatta arrived at 2,370 millions, paper, as the figure for 1924; and this we accept, rounding it off to 2,400, with 540 million gold lire as the equivalent.

The expenditures of tourists continued more or less at the level attained in 1923, although the gold value tended to shrink. Borgatta's estimate of 2,520 million paper lire as the net earnings here is based upon a conservative estimate of 800,000 visitors, averaging an expenditure of from 3,600 to 3,650 lire in sojourns of from 18 to 20 days; and from the resulting figure of 2,900 million lire are deducted 380 millions to cover the expenditures of Italians abroad as tourists or business men. The statistics of the E. N. I. T. (Entità Nazionale Italiana Turistica) on which are based these results of Borgatta, are in turn taken from the declaration of hotelkeepers, and from the figures for the sale of railroad tickets and related service charges. They appear, therefore, trustworthy. We shall adopt 2,500 millions, paper, say, 550 million gold lire, as the income item.

The earnings from shipping services continued large in 1924. Borgatta, following much the same method of inquiry as Jannaccone, fixed 660 millions as the probable net earnings on freight and passenger traffic, and 60 or 70 millions as the net outgo by way of expenditures of Italian ships abroad, over and above corresponding foreign expenditures in Italy — a total net income of roughly 600 millions. The *a priori* computation in our table on page 274 points to earnings of over 1,200 million lire. This figure is certainly in excess of the real earnings, but on the other hand, the fact that the Italian merchant marine is steadily growing in efficiency as newer construction methods are employed, would have warranted the discontinuance as from, say, 1923 or 1924, of the "discount" of one-third in earning power as compared with the merchant marine of Great Britain, which we made as part of the method described on pages 271–274. Had this discount been abandoned, the table would have shown a correspondingly larger figure for the year in question. If, instead of this procedure, we increase Borgatta's results so as to reach a total no less for 1924 than what it had been in 1923, we shall probably have committed no very serious error.[50] This

[50] The profound changes undergone by the Italian merchant marine since 1913 can only be most briefly mentioned here. In June, 1914, the gross tonnage of steel shipping — steam and sail — was about 1.4 millions; in June, 1926, no less than 3.1 millions, according to Lloyd's Register. From 1915 to 1921, a tonnage of no less than 677,000 was lost in consequence of hostilities, 120,000 tons were lost through accidents, 99,000 tons were broken up, and 39,000 tons sold; on the other hand, the great navigation center of Trieste, on becoming Italian, brought 581,000 tons under the Italian flag; 585,000 tons were bought abroad, and 529,000 tons were newly constructed. As it stood in 1925 the merchant marine of Italy, consisting of about 2 million tons of cargo tonnage, and 900,000 tons of mixed passenger and freight tonnage, is estimated (by Mortara, from whose *Prospettive economiche*, of 1924 and 1926 these details are taken) to have doubled its general efficiency as compared with 10 years ago; but it still comprises a large number of antiquated vessels. The Navigazione Generale Italiana has resumed its program of construction of fast and luxurious vessels. A 30,000-ton vessel, the *Roma*, was to be ready for South American service in the autumn of 1926, and another like it soon after. This company was reported in 1925 to be planning later to place several

would give us again 900 million paper lire, or say, 200 million in gold, as the net income.

Again allowing 400 million paper lire — say, 85 millions in gold — for the category of miscellaneous income, from foreign government allowances to combatants' families, ecclesiastical remittances, money orders, and the like, we arrive at a total income of 6,200 million lire, paper, or about 1,375 millions in gold.

The difference between income and outgo is one of approximately 975 million paper lire, roughly 220 millions in gold. But it is a difference no longer representing a deficit; for 1924 a

15,000-ton motor-driven vessels in Australian and other services. Shipping construction was being subsidized at the rate of 300 lire per ton for freighters and 400 lire per ton for steamers. Some 81 million lire were paid out in 1924–25 on this account and probably as much more in 1925–26. The construction of motor-driven shipping is rapidly increasing in Italy. At the end of 1925, of the 310,000 tons under construction, 233,000 were designed for electrical propulsion, of some 161,000 H.P. Traffic has increased in volume so that for 1924, with a total of 31.7 million tons of merchandise loaded and unloaded to all ports by international and coastwise shipping, the pre-war record of 31.8 million tons (1913) was about equaled. See Appendix G, p. 528. Leaving aside the traffic in sailing vessels, practically all in Italian hands both before and since the war, one may compare the pre-war and present shares of Italian total imports and exports carried in steamers thus (in millions of tons):

Year	*Ships of Italian Registry*	*Ships of Foreign Registry*
1913	10.3	15.3
1924	13.9	13.4
1925	14.4	12.9

Italian shipping with an aggregate tonnage of 800,000 was laid up in December, 1922, but this was true of not more than 250,000 tonnage December 1, 1924, and on January 1, 1926, only 41,000 tons were laid up. The government takes the most serious interest in shipping, and during the fiscal year 1925–26, entered upon a series of agreements with shipping companies providing for subsidizing of services with a total length of 5,679,000 miles, as against 3,870,000 miles of service previously subsidized. The outlay on subsidies in 1924–25 was about 150 million lire; this outlay, however, was substantially increased in 1925–26. For references to shipping policy, see page 271.

real surplus seems certainly to have been earned, even though we have made generous allowances for the outgo items.[51]

3. *Capital Operations.* Available for debt repayment or for new investment, then, was a sum of 975 million paper lire. Borgatta concluded that some 990 millions in all were expended in 1924 in the form of capital outlays and debt redemption; and of this total, about 650 millions were invested in new securities.[52] In part, these operations were facilitated by new foreign borrowings amounting to 600 million paper lire, of which 200 millions went for renewals.

In other words, to the 975 millions of available income on current account, some 400 millions were added as proceeds from transactions on capital account; and these 1,375 million paper lire — perhaps 310 millions in gold — were employed in debt redemption or in foreign investment of one sort or another.

We now submit a summary of the results of the year 1924.

SUMMARY OF INTERNATIONAL INCOME AND OUTGO, 1924

	Millions of gold lire	*Millions of paper lire*
Outgo:		
Excess of commodity imports	1,000	4,500
Interest, profits, dividends, commissions, and miscellaneous	165	725
Total	1,165	5,225

[51] Even if no reduction whatever were made in the excess of imports of commodities as shown by the statistics, there would still be a slight surplus for the year 1924.

[52] Comprising chiefly 300 millions in the Polish loan; 140 millions in the Hungarian loan; 50 millions in the German loan; and 130 millions for other securities. The balance is made up of sums sent abroad for deposit, or left abroad by exporters, and similar items. In a parliamentary address of December 20, 1924, the Minister of Finance estimated the capital sum as around 750 million lire for the public loans, from which, in time, he foresaw annual revenue of perhaps 140 millions. The government had "acquiesced in these operations for reasons of international policy." *Dal disavanzo all'avanzo,* Rome, 1924, p. 22.

Income:				
Remittances from Italians abroad	540		2,400	
Tourists' expenditures	550		2,500	
Shipping and related earnings	200		900	
Miscellaneous	85		400	
Total		1,375		6,200
Surplus		210		975

SUMMARY OF CREDIT OPERATIONS, 1924

(In millions of lire)

	Gold		*Paper*	
Receipts:				
Available surplus from current accounts	220		975	
Private borrowing operations	90		400	
Total		310		1,375
Outgo:				
Foreign investment (ascertained)	145		650	
Repayment of debt, public and private (ascertained)	75		340	
Foreign investment or debt repayment (unascertained)	90		385	
Total		310		1,375

Summing up these statements, we find that, in the three years 1922–1924, Italy's gross liabilities were cut down by between one and two hundred million gold lire. The means whereby this was done were derived from surplus income accumulated in the latter part of that period, and were so derived only because of the diminution in the surplus of imported goods after the good harvest of 1923, and the decisive abandonment of foreign public borrowing, in the fall of 1922. Thus Italy's international balance had been steadily if slowing improving, and a favorable balance in 1924 had actually been attained.

F. 1925

1. *Items of Outgo.* Italy entered 1925 under the handicap of a mediocre harvest yield in 1924, and under heavy pressure from foreign money markets. The new reparation plan, agreed upon at London in midsummer, 1924, hastened the return flow to Germany of capital that had seeped out into lire and other holdings; and the apparently successful operation of the League of Nations management of Austrian finances hastened the gradual liquidation of Austrian holdings of lire. Political developments in Italy itself, moreover, tended to affect monetary conditions unfavorably through the latter months of 1924, and to bring about liquidation of foreign stocks of Italian currency. The cumulative effect of these influences was felt in the sagging of the exchange, and in the rapid growth of foreign borrowing.

According to Borgatta, something like a billion lire of new indebtedness was incurred on private account in the first half of 1925; and a reputable writer has estimated the total of new foreign capital taken into Italy in 1925 as 3 billions.[53] All the efforts of the government to stave off a crisis were unavailing. The increase of the discount rate and the rigid regulation of security market speculation served to obviate its worst effects, but in the early summer, foreign borrowing had to be resorted to by the government. A credit of 50 million dollars was secured in New York, and the exchange pressure was thereby materially relieved. In the late autumn came the new gold loan in New York, absorbing the temporary credit, and adding in all 100 million dollars, or 500 million gold lire, to the public debt of Italy; and the first payment on the funded war debt was authorized, although its actual delivery was not to be carried out until some time in the spring of 1926, when also the settlement with Great Britain was to begin exerting an important effect on the international accounts.

The harvest of 1925 was rather bountiful, but the industrial expansion on the one hand, with its requirements for more raw

[53] L. Caselli in *Annalist*, New York, January 29, 1926, p. 183.

materials, and the stemming of emigration, on the other, with its intensification of the demand for food supplies, held the disparity between imports and exports at a surprisingly high figure. No less than 7,500 million paper lire, say, 1,500 million gold lire, resulted as the year's unfavorable trade balance.[54]

It is as yet, of course, difficult to determine precisely the aggregate of the category of outgo for interest, dividends, profits, commissions, and miscellaneous government disbursements. As we have pointed out above, the borrowing in 1925 was heavy, and fairly large interest payments must have been involved even for that year itself. In view of the depreciation of the exchange, the other components of this category must have been a little larger for 1925 than they were for 1924. It would be reasonable, then, to assume as a sort of tentative aggregate outgo on account of these items, 1,000 million paper lire, or 200 millions gold. This makes a total trade and service outgo of at least 8.5 billions in paper, or 1.7 billions in gold.

2. *Items of Income.* Business conditions in American countries permitted a considerable expansion of remittances to Italy, and the temporary sag of the lira to 3.6 cents tempted foreign currency speculators in the summer of 1925. Whereas 555 millions had been deposited in Italian banks by persons of Italian connections living abroad in 1924, no less than 787 millions were so deposited in 1925; and the withdrawals did not increase so markedly. Bearing in mind the depreciation of the value of the paper lira, it is reasonable to believe that the aggregate of remittances will be found to have attained, if it did not exceed, 3,000 millions of paper lire, or roughly 600 millions gold.[55]

The year 1925 brought a great number of travelers into Italy, by reason of the Jubilee observance of the Catholic Church.[56]

[54] The annual average value of the gold lira in 1925 in terms of paper was 5.00.

[55] See *Bollettino dell' emigrazione*, 1925, pp. 781 and 1093, and 1926, p. 370, on remittances in recent years.

[56] See note 42 on page 311. In the *Manchester Guardian Commercial*, of November 12, 1925, is mentioned an estimate as high as 1,500,000 visitors. The actual number of religious pilgrims was officially reported as 357,000.

Over a million foreigners in all entered the country in the year, and in the spring of 1926, preliminary estimates placed the net yield of this immense traffic at 3.5 billion lire — say, 700 millions gold.

Shipping earnings have not fallen off in 1925, nor in 1926.[57] The earnings of Italy in this category cannot, in 1925, have fallen below the level attained in previous years; and in view of the depreciation of the lira, it will not be surprising if a billion paper lire appears ultimately as the net income for that year.

The miscellaneous sources of revenue probably slightly more than held their own, in terms of paper lire, amounting to as much as 500 million paper, or 100 million gold. Conceivably, then, the current credit items exceeded 8,000 million paper lire, or, perhaps, 1,600 million gold.

If these preliminary estimates are approximately correct, a deficit in Italy's international accounts had reappeared; not a great deficit as things go in these days, but a deficit of perhaps 500 millions paper, or 100 millions gold, none the less. Current income had once more failed to meet current requirements.

We shall attempt no tabular statement for this year 1925; nor would it be fruitful to provide separate discussion on the capital transactions. The material is too fragmentary to warrant either the statement or the discussion. We may close this appendix with a single brief observation. The burden of the heavy trade deficit, which the depreciation of the lira and the resulting stimulus to exports has by no means overcome, and the cost of large scale employment of foreign capital, in a wide variety of forms, of course, still involve a serious strain upon Italy.[58] The developments of the winter of 1925–1926 indicate

[57] The details of the shipping subsidies announced in September, 1925 — fully described in *Wirtschaftsdienst* of September 25, and in various shipping journals — make clear how much store the government sets by the merchant marine to right the nation's international balance.

[58] Writing in the *Economist*, London, of November 7, 1925, p. 758, a correspondent expressed the opinion that it would be difficult to overcome the unfavorable balance, and get away from the present situation, in consequence of which Italy is obliged "to resort to

no prospect of relief. On the contrary — as is emphasized sufficiently in the text — there has been brought into effect, at last, the additional load of public foreign debt liquidation.

foreign credits under various forms." An even more sober view of the situation is taken by L. Caselli in his article in the *Annalist*, New York, January 29, 1926, p. 183.

APPENDIX B

BUDGETARY PRACTICE

EXCEPT during certain relatively brief periods, Italy has managed to preserve the unity of her budget, that is to say, to keep within one general statement all the records of receipts and expenditures. There have been, it is true, several instances of independent accounts set up in time of emergency; but both the obligations and resources remaining in these accounts were eventually assimilated to the general budget.

I. BUDGETARY STRUCTURE AND HISTORY

The Italian budget consists of four sections or categories as follows:

I. *Entrate e spese effettive ordinarie e straordinarie.* (Actual receipts and expenditures, ordinary and extraordinary.)
II. *Construzione di ferrovie* (railroad construction).
III. *Movimento di capitali* (capital accounts).
IV. *Partite di giro* (transfer accounts).

In the first category appear all receipts from other sources than borrowing, and all expenditures except as noted with regard to the other sections. Section II relates to the financing of railroad construction exclusively. The theoretical basis for this separation rests upon the investment of capital funds so as to increase the nation's material equipment. Transfers from the other sections are made to the revenue account of this section, which also receives the proceeds of certain borrowing. The third section embraces the receipts from borrowing, and the expenditures made to extinguish indebtedness. Here again, the expenditures are deemed to be on account of investment in

additional equipment for the national economy as a whole, port and road construction, and other investments, the redemption of debt previously incurred, and the opening of new accounts. The receipts are, of course, the proceeds of borrowing (or transfers from other accounts through the liquidation or consolidation of credits). Finally, in the fourth category are recorded transfers of funds received by the national government for provincial and local bodies, and other autonomous organizations. Receipts and disbursements nearly always balance each other exactly in this category.

These four categories constitute the *bilancio*, or more correctly, the *conto di bilancio*, of the Kingdom. They may appear in any one of four ways. In the first instance, of course, as in all other countries, they are presented as the estimates of the administration (*bilancio preventivo*). A committee of the Chamber of Deputies, consisting of thirty-six members selected largely by lot, prepares a detailed critical report on the estimates, rarely however recommending specific alterations of importance. In due course, the budget is enacted into law after passage through the two houses of the national legislature. But the latter, as in other countries, do not confine their appropriations throughout the year to the rigid limits of the estimates as submitted by the cabinet. They frequently make additional appropriations in special statutes; and the Executive, enjoying a rather wide latitude in such matters, may transfer funds and, in the presence of an emergency, may authorize special disbursements. Moreover, the estimates of revenue made long in advance of the period of collection almost invariably exceed or fall short of the amounts collected. Consequently, when the fiscal year closes the *bilancio effettivo* or *Revenue and Expenditure Accounts* will appear different both as to receipts and expenditures from the *bilancio preventivo*. Naturally, however, many obligations may have been assumed during the course of the fiscal year without having been fully liquidated; while many taxes may have been assessed and other sources of revenue definitely measured without actual payment thereof to the treasury having been completed.

The statement of the revenues received *or assessed and collectable* and of disbursements completed or obligated is filed not later than four and one-half months after the expiration of the fiscal year. It is known as the *bilancio di competenza* or *authorized budget accounts* for the given year. These revenues — collectable but not yet in hand — and payments — disbursable but not yet effected — stay on the books of the Treasury in a set of *suspense accounts*, known as the *conto dei residui*, for at least five years, unless sooner liquidated or unless continued for a longer period by special legislative mandate. Some cash transactions, but, in the main, extensive accounting adjustments, are involved in the settlement of the *residui*.

Finally, there are the *closed budget accounts* or *bilancio consuntivo* wherein are placed the final and fully adjusted expenditures and receipts in each of the four budgetary categories, after full review by the responsible accounting officers of the administration and the settlement in the Court of Accounts of all doubtful points. Every year the state of the various aspects of the budget is shown in the *rendiconti consuntivi;* but since the beginning of 1924, there has been in addition a monthly statement of the more significant figures which the Treasury issues as a supplement to the *Gazzetta ufficiale* under the title *Conto riassuntivo del Tesoro*.

Treasury cash accounts must be carefully distinguished from the budget. These are grouped together as the *conto della tesoreria*. Here collections (*riscossioni*) and payments (*pagamenti*) are entered regardless of the fiscal period (or *esercizio*) to which they are to be credited or debited; but, of course, due care is taken to attribute them to earlier budgetary accounts, if they belong elsewhere than in the accounts of the fiscal year of receipt or disbursement.

Still another classification needs to be mentioned. When the total receipts and expenditures of all the categories of the budget are added up, regardless of whether the receipts have come from taxes or from loans or whether the disbursements have been directed to debt service or to administrative purposes, the

totals go by the name *entrate e spese reali*. The adjective "real" is, of course, highly misleading in the circumstances and accountants and economists have long urged a change in the official terminology. The nation that produced Lucas Paccioli, the fifteenth-century pioneer in accounting science,[1] ought to be able to work out a budgetary terminology as lucid as the budget structure itself is both logically sound and smoothly operating.[2]

[1] An English translation of his treatise on double entry bookkeeping was published by Pietro Crivelli in London in 1924. His name sometimes appears as Paciolo.

[2] On the confusion caused by the use of this term "real," see Flora, *La politica economica e finanziaria del Fascismo*, Milan, 1923, especially p. 150 ff., and Ricci, "Il miglioramento del bilancio dello stato" in *Rivista di politica economica*, June, 1923, p. 593 ff. In general, the following references may be of service in connection with the study of the Italian budget. The parliamentary debates and documents constitute, together with the reports of the Court of Accounts, the primary source material. The value of the budget speeches or *esposizioni* has varied with the grasp and responsibility of the successive Ministers of Finance; the *relazioni* of the respective legislative committees have tended to indulge in graceful philosophizing or sterile deprecation. From time to time, there has been published a detailed official analysis of preceding salient budgetary figures; the entire budgetary record of Italy from 1862 to 1913 is presented in an excellent volume published in the latter year at Rome by the General Accounting Office, under the title *Il bilancio del Regno d'Italia negli esercizi finanziari dal 1862 al 1912–13*. The nearest thing to this summary which has appeared for the years since 1914 is in the form of two large documentary compilations issued respectively in May and December, 1923, by the Minister of Finance, under the title *Documenti sulla condizione finanziaria ed economica dell Italia*. Of official documentary rank, also, is the League of Nations *Memorandum on Public Finance*, the latest available issue of which is that for the year 1922, published at Geneva in 1923.

The best brief survey of the history and prospects of Italian public finance before the war available in English is an article by Senator Luigi Einaudi, "The Growth and Present Situation of the Public Finances of Italy," in the *Economic Journal*, 1915, p. 493 ff. A convenient if somewhat anodyne summary of this same pre-war period (to 1910) was furnished by former Minister of Finance Paolo Carcano in the second volume of the collaborative *Cinquanti anni di storia italiana*, Milan, 1911. Historical and analytical studies of independent value are to be found in the principal manuals on public finance, of which the following may be cited: Flora, *Manuale della scienza delle finanze*, 5th ed., Livorno, 1917; Einaudi, *Corso di*

At this place the fact must be emphasized that Italian budgetary policy and practice are essentially based upon appropriations and other legal commitments as to expenditure and revised official estimates as to revenue, and not upon actual disbursements and receipts. It is the revenue and expenditure accounts (*bilancio di competenza*) rather than those of receipts and disbursements (*riscossioni e pagamenti*) which are generally cited; and, in the absence of an indication to the contrary, it may be assumed that the *bilancio di competenza* is the source of budget figures. In ordinary times, of course, there is no reason to be dissatisfied with this course, for actual receipts then closely approximate the official assessments and other bases of estimates of revenue, and actual disbursements represent practically all of the authorized expenditure. It is only in time of stress and confusion such as attend a war that the two sets of accounts draw apart from each other; and several years of adjustment may be required before the actual receipts and disbursements will have disposed of all the congestion of suspended and delayed accounts, and once more move smoothly in consonance with the authorizations of expenditure and the assessments and other basic elements in the revenue estimates.

The structure of the Italian budget has undergone several important changes in both the pre-war and post-war periods. From the unification of the kingdom down to and including 1877 the budget had no other categories than revenues (ordinary and extraordinary) and expenditures (ordinary and extraordinary). Moreover, from 1861 to 1875 inclusive, receipts and disbursements were charged to the fiscal periods when they were actually

scienza delle finanze, Turin, 1914; Tangorra, *Trattato di scienza delle finanze*, Milan, 1915; De Viti de Marco, *Lezioni di scienza delle finanze*, Rome, 1923; Nitti, *Principii di scienza delle finanze*, 4th ed., Naples, 1912; Graziani, *Istituzioni di scienza delle finanze*, 2d ed., Turin, 1911; and De Santis, *Il diritto finanziario privato e pubblico*, 2 vols., Turin, 1918–19. A publication of the German Imperial Treasury for use of the Reichstag (*Die Finanzen von Frankreich, Grossbritannien . . . Italien*, etc., Berlin, 1908) gives a useful analysis of Italian budgetary procedure, and much tabular material.

effected; beginning with 1876, the procedure of charging them to periods for which they were respectively assessable or disbursable by law was adopted. Effective as of 1878, the three categories — actual receipts and expenditures, capital accounts, and transfer accounts — were inaugurated. But almost at once the heavy burden of indebtedness incurred on account of railroad construction led to the segregation of all charges, as well as receipts, on this account into the category of railroad construction. From January 1, 1879, therefore, the four categories defined on pages 329–330 have been in use. There have been, however, numerous minor modifications. The construction of the railroads proved exceedingly costly, and frequent changes were made in the method of raising and disbursing funds. In all some 3,020 million lire were spent on railroad construction between 1862 and 1913; and of this sum 643 millions came out of current funds, about 234 millions from reimbursements from France on joint tunnel construction costs, and certain repayments from local or private sources, and 2,143 millions from borrowing of one sort or another.

The pension system, too, was the object of considerable experimentation. For ten and a half years (January 1, 1882–June 30, 1892), practically all the civil and military pensions were carried from a special fund (*cassa pensioni*) raised by the sale of *rendita*. The reaction against this movement in the direction of an autonomous budget brought about the abolition of the *cassa*, and the reincorporation of the pension disbursements in the expenditure schedules of the various departments. Thus scattered, despite the obvious costliness and clumsiness of such a system, they continued to be handled until the first minister of finance of the Fascist Administration succeeded in again bringing them together under the ministry of finance. The outlay on pensions during the existence of the *cassa pensioni* exceeded 178 million lire, and this sum must be added to the total expenditures of the state on other accounts for the years involved. Of course, the autonomous budgets caused much more trouble after 1915 than during the pre-war years.

Before significant totals are considered, a word may be said about the change in the fiscal year. Until 1884 the fiscal and calendar years coincided; but as it was difficult to have the budget approved in time to go into effect on January 1, by a national legislature beginning its session late in the autumn, the fiscal period was shifted so as to run from July 1 to June 30, beginning on July 1, 1884.

Space is not available for the reproduction *in extenso* of the budget accounts of pre-war Italy, but the following details based thereon are necessary in order to support the conclusion expressed in the text.

For about a half-dozen years beginning with 1861, there was lacking the systematic order in the accounts which characterized them subsequent to 1867; however, definite figures have been worked out for the entire period beginning January 1, 1862, on a basis practically comparable with those for later years.[3] The year 1861 itself witnessed the formal unification of the kingdoms of Sardinia and Naples, which signified, in one sense the consolidation of two substantial deficits. It appears that the excess of expenditures over receipts from other sources than borrowing amounted for the year 1861 to 415 million lire, the two amounts being respectively 932 and 517 millions. During the fifty-one and one-half years from January 1, 1862, to June 30, 1913, total expenditures in all categories (in other words, the so-called "real" expenditures, *spese reali*) amounted to 85,519.6 millions. To this sum must be added the 178.6 millions disbursed by the *Cassa pensioni* in its decade of operation.

In the aggregate, therefore, 85,698 million lire were disbursed in the fifty-one and one-half years ending June 30, 1913, either in costs of administration, or in connection with public debt, pensions, and the like.

In the same period of fifty-one and one-half fiscal years ordinary and extraordinary revenues produced 73,077.5 million

[3] To be found in the volume *Bilancio del Regno d'Italia*, cited in the preceding note. All figures prior to July 1, 1913, are drawn from that source.

lire, and if we add to this sum the 234 millions of miscellaneous reimbursements and other non-borrowed receipts on account of railroad construction, we have an aggregate of non-borrowed income of 73,312 million lire.

The excess, then, of public expenditure over revenues from other sources than borrowing for the period from January 1, 1862, to June 30, 1913, amounted to about 12,386 million lire. If we include the less definitely ascertained deficit of the incomplete fiscal year 1861 — we arrive at a figure of 12,801 million lire. In order to determine where Italy stood in this regard when she went into the war, we must also include the results of the fiscal year 1913–14, since the following fiscal year, 1914–15, not only witnessed her formal entrance into the war, but was characterized throughout by the existence of a state of affairs decidedly affected by the war. The total disbursements in all categories (except the transfer accounts) amounted for 1913–14 to 3,041 million lire, and the gross non-borrowed receipts, ordinary and extraordinary, aggregated 2,871 millions.[4]

We may, therefore, construct the following table of the expenditure and revenue accounts from the unification of the Kingdom in 1861 down to the end of the pre-war period, June 30, 1914.

	(*Million lire*)	
Expenditure, fiscal year 1861 (approximate) .	932	
Aggregate expenditure, January 1, 1862–June 30, 1913 (including 178.6 millions paid under an autonomous pension service 1882–1893) .	85,698	
Aggregate expenditure, fiscal year 1913–1914 .	3,041	
Total	89,671	89,671

[4] Based on *Documenti sulla condizione finanziaria ed economica dell' Italia*, December 3, 1923, p. 283. All budget figures for periods subsequent to July 1, 1913, are taken, unless otherwise credited, from this publication or from the section of the same collection issued May 13 of the same year. Hereinafter, these sections will be cited simply as *Documenti*, with the name of the respective month.

Revenue, fiscal year 1861 (approximate) . .	517	
Aggregate revenue from other sources than borrowing, January 1, 1862–June 30, 1913 (including non-borrowed revenue and reimbursements on railroad construction account, amounting to 234 millions)	73,312	
Aggregate revenue from other sources than borrowing, fiscal year, 1913–14	2,871	
Total	76,700	76,700
Excess of Aggregate Expenditure over Aggregate Non-borrowed Revenue		12,971

This compilation has been assembled primarily to support the observation in the text (p. 62), to the effect that there was, in pre-war Italy, taken as a whole, an injudicious reliance upon borrowing. A summary of this sort serves to bring out in striking fashion the fact that spending constantly kept ahead of the available resources, even though it has to be borne in mind that such attempts at simplification necessarily do violence to the inherently complex relations and varying significance of the different categories of public finance. Moreover, as has elsewhere been emphasized, no inconsiderable part of this excess of aggregate expenditure over aggregate non-borrowed revenue consisted of outlay of an unquestionably admissible nature, such as the cost of constructing a large part of the railroad system of the country. It hardly needs to be said that the minister of finance has never called upon the national legislature to consider the pathological history and indications of the budget with any statement of this character.[5]

It will be of some interest to examine an analysis of the receipts and expenditures for the bulk of the pre-war period. Leaving the extraordinary receipts and expenditures out of

[5] Somewhat differently arranged but very interesting, is a statement prepared by Senator Einaudi, in the article cited in note 2, p. 332. The distinguished economist of Turin University does not include the year 1861, nor the *cassa pensioni* payments of 1882–1893. In other respects, too, his statement which is in the form of a balance sheet, differs from the one on this page.

account,[6] we find that the ordinary receipts and expenditures were as follows for the fiscal years 1862 to 1912–13, inclusive.[7]

TOTAL ORDINARY NON-BORROWED REVENUE, 1862–1913
(In millions of lire)

	Amount	*Percentage*
Public domain	3,535.6	4.8
Direct taxation	19,742.4	27.3
Taxation on transactions	9,748.0	13.4
Taxation on consumption (indirect)	16,415.6	22.7
Revenue from monopolies	15,736.9	21.7
Revenue from public services	4,169.7	5.7
Miscellaneous (including reimbursements)	3,024.5	4.4
Total	72,372.7	100.0

THEORETICAL BALANCE SHEET OF THE ITALIAN TREASURY 1862–1914
(In millions of lire)

	Expenditures	*Receipts*
Deficit — January 1, 1862		13.26
Effective or *current expenditure* — January 1, 1862–June 30, 1914	79,174.01	
Capital expenditure on railroad construction and the like, January 1, 1862–June 30, 1914	9,404.49	
Losses and expenses charged to Treasury Account, January 1, 1862–June 30, 1914	421.81	
Effective or *current revenue*, January 1, 1862–June 30, 1914		75,601.26
Extraordinary income, from borrowing, the sale of state property and the like		13,414.66
	89,000.31	
Surplus in the Treasury June 30, 1914	28.87	
	89,029.18	89,029.18

[6] Their chief items, in millions of lire, for the period 1862–1913, are as follows: *Expenditure* War Ministry 2,398, Marine 890, Public Works (irrigation port works, lighthouse construction), 1,683, Municipal improvements in the city of Rome, 242; Miscellaneous Administration, 706; Debt service, 560; Premium on gold, 94. *Receipts* are: Reimbursements, 379; Chinese indemnity, (1901) 40; Special tax for earthquake sufferers (1908), 75. See *Bilancio del Regno d'Italia*, 1862–1913, pp. 466 and 503.

[7] From *Bilancio del Regno d'Italia, 1862–1913*. The available documentary material covering 1913–14 (and subsequent years) does not present the figures arranged according to this classification.

TOTAL ORDINARY EXPENDITURE, 1862–1913

Perpetual Debt	19,632.0	28.4
Redeemable Debt — maturity not fixed	3,843.0	5.6
Redeemable Debt — maturity fixed	4,353.2	6.3
Pensions	3,197.4	4.6
Grants	794.3	1.1
National legislature	104.4	.2
General administration	2,009.6	2.9
Foreign exchange, bankers commissions, and other expenditures connected with foreign payments	83.4	.1
Collection of revenue	8,325.9	12.1
Judiciary	1,303.1	1.9
Administration of justice	279.5	.4
Foreign affairs	329.8	.5
Public services	8,799.2	12.8
Ecclesiastical establishment	132.8	.2
Military and naval establishment	14,960.1	21.7
Miscellaneous	847.6	1.2
Total	68,995.3	100.0

Certain salient ratios stand out from these summary tables. Roughly 45 per cent of the total ordinary expenditure was absorbed in interest payments, debt retirement and pensions; while less than 22 per cent went for the upkeep of the military and naval establishments. Sixty-three per cent of the ordinary revenue came from direct and indirect taxation. The monopolies (tobacco, salt, quinine) appear to yield a large income, but since (except for an experimental period) the receipts from this source have regularly been gross receipts — that is, without deduction of operating costs, the net income from the commercial monopolies was in fact considerably less. The same is true of the telephone and telegraph services, classified both as to expenditure and income along with educational, penal, correctional, and charitable institutions.

A word should be said here as to the transfer accounts, or *partite di giro*. As they involve no budgetary commitment, they have not been included in any of the foregoing figures. Embracing for the most part funds in process of transfer to or from departmental, provincial, local and miscellaneous administra-

tions, the transfer accounts necessarily balance. It is of interest that in the fifty-one and one-half years from January 1, 1862, the Treasury should have handled, in this category, about 3,454 million lire.[8]

II. THE BUDGET DURING AND SINCE THE WAR

The Italian budget, like those of all the other belligerents, fell into great confusion during the war, and only within the last two or three years has it begun to recover its former coherence and clearness. Detailed exposition of its records during or since the war will not be attempted here, but the essential figures will be set forth together with reference to supplementary material; figures for the fiscal years 1923–1926, however, will be given in greater fullness than for the preceding years.

The column headed "Revenue" in the following table includes the ordinary and extraordinary non-borrowed revenues provided by law and, so far as taxation was concerned, actually assessed.

TABLE I

REVENUE AND EXPENDITURE ACCOUNTS, 1915–1926
(In millions of lire)

YEAR ENDING JUNE 30	REVENUE	EXPENDITURE	EXCESS OF EXPENDITURE
1915	2,730	5,828	3,098
1916	2,863	12,550	9,687
1917	5,503	21,661	16,158
1918	7,697	26,532	18,835
1919	9,914	33,337	23,423
1920	15,513	27,882	12,369
1921	19,288	37,493	18,205
1922	20,442	37,599	17,157
1923	19,566	24,470	4,914
1924	20,533	21,156	623
1925	20,440	20,023	417[a]
1926	20,390	18,901	1,489[a]

[a] Excess of revenue over expenditure; provisional in the case of 1926.

[8] *Bilancio del Regno d'Italia, 1862–1913*, p. 419.

The column headed "Expenditure" in the same fashion presents the lawful budgetary commitments for the successive years: some of these commitments have been liquidated by actual payment within the respective fiscal year, or subsequently, and others remain hanging over the budget as unliquidated liabilities (*residui passivi*) or are eventually curtailed or cancelled. Reference to the latter groups of commitments will be made presently.

If, now, we examine the *cash* accounts of the Treasury, we find that the sums taken in and paid out are altogether different from those in Table I. Inasmuch as what is to be said about the adjustment of the residual accounts requires that account be taken of actual payments, a statement of *actual collections* of non-borrowed revenue and *actual disbursements* of authorized appropriations is useful. In this case, of course, the operations reported bear no necessary relation to the fiscal years in which they occur. The figures for 1926 are provisional.

TABLE II

RECEIPTS AND DISBURSEMENTS ACCOUNTS, 1915–1926
(In millions of lire)

YEAR ENDING JUNE 30	RECEIPTS	DISBURSEMENTS
1915	2,340	4,812
1916	2,894	9,997
1917	3,701	17,389
1918	4,971	26,106
1919	5,921	25,846
1920	8,649	20,515
1921	11,281	23,946
1922	14,233	20,428
1923	16,099	18,054
1924	18,654	16,007
1925	20,566	18,490
1926	21,499	18,697

The steady excess of actual disbursements over actual receipts is, of course, the cause of the constant borrowing of the Treasury. Yet great as the disbursements were, they equalled the lawfully incurred commitments in no year prior to 1925–26; while the

collections steadily forged ahead until, in 1924–25, they overtook and passed the commitments for that year, as apparently they were able to do again in 1925–26. In connection with the figures for the fiscal year 1923–24, both for receipts and disbursements, we shall have something further to say on pp. 349 and 354.

The complex situation which the Treasury was called upon to meet as the war proceeded, and for years after its conclusion is best brought out by a survey of the main figures in its cash statement, taking only the closing date of the fiscal year. In the following table, the column headed "General Fund" represents cash in the Treasury; that headed "Credits" includes moneys in process of collection, and the like. The column "Obligations" embraces a wide variety of outstanding securities,

TABLE III

STATE OF THE PUBLIC TREASURY ON JUNE 30 FROM 1915 TO 1926
(In millions of lire)

JUNE 30	GENERAL FUND	AUTHORIZED CREDITS	TOTAL RESOURCES	OBLIGATIONS	EXCESS OF OUTSTANDING OBLIGATIONS OVER RESOURCES
1914	347	1,435	1,782	1,170	+ 612[a]
1915	178	1,672	1,850	3,068	1,218
1916	328	1,891	2,219	4,934	2,715
1917	492	2,529	3,021	10,014	6,993
1918	1,108	5,374	6,482	18,467	11,985
1919	920	12,128	13,048	30,209	17,161
1920	2,473	13,267	15,740	32,602	16,862
1921	2,291	20,631	22,922	38,252	15,330
1922	3,065	17,201	20,266	42,092	21,826
1923	4,580	6,045	10,625	41,836	31,212
1924	1,944	5,173	7,117	38,425	31,308
1925	1,277	2,717	3,994	29,754	25,760
1926	3,003	6,488	9,491	29,711	20,220

[a] Excess of resources over obligations.

advances, accounts current, and other pending liabilities. The figures are in millions of lire.[9]

At the beginning of the war, the general cash fund quickly came in sight of exhaustion, and the Treasury's resources consisted largely of credits as yet unrealized. As the payments indicated in Table II kept piling up, and the assessed and collectable revenues set forth in Table I failed to come to hand promptly, the cash balance had to be built up by more and more frequent resort to borrowing. Slowly, after the war, the needs of the State began to diminish, and the credits became more liquid. The retirement of short-term indebtedness or its conversion into debt of more distant maturities not only permitted (since 1923) the decisive shrinkage of the miscellaneous obligations of the Treasury, but it also made it possible to diminish the cash balance. Formerly substantial, this balance had been brought down, by June 30, 1925, to about 1,300 million lire.

In the following tables (IVa, IVb, IVc, and IVd) will be found the classification of expenditure from the beginning of the fiscal year 1914 through the fiscal year 1925. This classification is based in the main on material contained in official memoranda of the Italian government prepared in connection with the negotiations for the funding of the Italian foreign public debt. Table IVb presents in comprehensive fashion the main groups of appropriations and commitments in the general budget. Table IVa shows appropriations for military, naval, and related purposes during this period. Table IVc shows military, naval, and related expenditures actually attributable to the war. Table IVd gives the expenditures which grew out of the war such as pensions, direct assistance, and other forms of relief.[10] In all of these cases, let it be recalled, we are dealing with the budget of appropriations, or more correctly, of authorizations, the *bilancio di competenza.*

[9] Based upon *Documenti*, December, 1923, p. 83, and *Bollettino di notizie economiche*, 1925, p. 735.

[10] A different classification of the appropriations for expenditure is derived from *Documenti*, December, 1923, p. 283 and following, where appears the statement of *Entrate e spese dello Stato*, 1913–1923.

TABLE IV a

Normal Military, Naval and Air Service Expenditure 1913–1924

(In millions of lire)

Year Ending June 30	Army[a]	Navy[a]	Air Service[a]	Total Military Expenditure[a]
1913	461	261	....	722
1914	465	313	....	778
1915	459	350	....	809
1916	602	263	....	865
1917	769	205	....	974
1918	764	184	....	948
1919	952	250	....	1,202
1920	1,420	279	....	1,699
1921	1,392	430	....	1,822
1922	1,510	643	....	2,153
1923	2,020	792	10	2,822
1924	2,006	815	174	2,995

[a] War expenditures are not included.

Main Classification of Expenditure, 1914–1923

(In millions of lire and percentages of total expenditures authorized)

Fiscal Year	Interest on, and Retirement of, Public Debt	Percentage of Total	Civil Adm.	Percentage of Total	Military and Naval	Percentage of Total	Pensions (non-civil)	Percentage of Total	Total
1914	530	17.4	1,615	53.1	896	29.5	...	..	3,041
1915	568	9.7	1,967	33.8	3,293	56.5	...	..	5,828
1916	735	5.9	3,638	29.0	8,177	65.1	...	..	12,550
1917	1,148	5.3	6,354	29.3	14,129	65.2	30	.2	21,661
1918	1,684	6.4	5,611	21.1	19,083	71.9	154	.6	26,532
1919	2,624	7.9	6,539	19.6	23,956	71.9	218	.6	33,337
1920	3,974	14.2	14,325	51.4	8,493	30.5	1,090	3.9	27,882
1921	4,105	11.0	22,064	58.8	10,202	27.2	1,122	3.0	37,493
1922	4,851	12.9	24,570	65.3	6,771	18.0	1,407	3.8	37,599
1923	5,234	21.4	13,813	56.4	4,001	16.4	1,422	5.8	24,470
Total	25,453	11.0	100,496	43.6	99,001	43.0	5,443	2.4	230,393

TABLE IV b

Classification of Expenditures During the Fiscal Years 1913–1925

(In millions of lire)

Year Ending June 30	Interest on the Internal Public Debt	Military Expenditure for the War	Expenditure Connected with the War	Normal Military Expenditure	Public Works	Social Purposes	Colonial Expenditures	Public Instruction	Expenditure Connected with the Management and Rendering of Public Services	Railroad Construction	Capital Account	Accountancy Balance Items
1913	505	....	....	722	498	8	[c]10	111	[b]881	55	304	59
1914	538	....	....	778	493	9	[c]10	131	[d]756	71	272	73
1915	556	2,214	36	809	533	10	151	144	[e]555	64	438	84
1916	687	7,040	507	865	485	13	149	145	[f]640	43	224	119
1917	804	12,018	1,069	974	433	13	131	156	509	37	1,962	111
1918	1,476	15,858	2,754	948	476	16	128	185	628	21	3,448	128
1919	1,761	15,346	6,935	1,202	605	23	136	244	698	19	1,552	125
1920	2,130	8,634	[g]2,972	1,699	857	28	160	536	1,918	19	[h]610	273
1921	3,667	2,051	7,157	1,822	1,221	95	212	705	2,255	9	4,433	150
1922	3,756	2,225	8,125	2,153	1,982	145	260	791	3,935	349	1,737	247
1923	4,234	7,565	18,057	2,822	1,915	61	245	802	4,072	455	1,194	181
1924	3,564	4,841	7,560	2,995	1,840	65	404	909	5,085	203	3,296	128
1925	4,000	574	3,284	3,611	1,816	108	235	979	5,037	363	2,556	74

[a] More than 41,903,000 lire included in the special account relating to the Administration of Tripolitania and Cirenaica.
[b] Includes 289,411,000 lire representing expenditures relating to the military expedition of Tripolitania and Cirenaica.
[c] More than 45,563,000 lire included as for note *a*.
[d] Includes 158,029,000 lire representing expenditures as for note *b*.
[e] Includes 40,513,000 lire representing expenditures as for note *b*.
[f] Includes 41,932,000 lire representing expenditures as for note *b*.
[g] More than 410,000,000 lire were paid with the issue of paper money or out of special funds deposited with the Treasury.
[h] Deduction was made of 50,000,000 lire loaned to the Federal Institute of Credit for the reconstruction of Venetia. This operation was liquidated during later years.

TABLE IV c

EXPENDITURES FOR PURPOSES DEPENDING ON AND CONNECTED WITH THE WAR, 1914–1925

(In millions of lire)

(Year ending June 30)

NATURE OF THE EXPENDITURES	1914	1915	1916	1917	1918	1919	1920	1921	1922	1923	1924	1925
War pensions[a]	..	..	1	20	102	146	242	702	998	1,224	2,232	2,012
Military assistance	..	..	439	855	1,364	1,543	445	192	198	110	103	75
Assistance to war refugees	..	6	20	68	208	398	109	14	..	..	..	..
Expenditures for the repatriation of Italian citizens, for the assistance of enemy subjects and for the protection of Italian interests entrusted to neutral countries	..	6	20	69	213	23	7	4	1	..	..	..
Restoration of civil government in the liberated regions	..	..	..	..	..	8	175	232	106	30	35	..
Compensations for war damages	..	..	..	..	..	[b]	508	988	1,303	873	472	515
Reconstruction of real property damaged in Venetia	..	..	..	..	..	459	230	622	322	60	6	..
Reconstruction in the new provinces	..	..	..	..	..	511	132	391	238	412	..	..
Expenditures for the civil administration in the new provinces	..	..	..	..	21	275	344	551	205	78	..	..
Expenditures for the exchange of Austrian paper money	..	..	..	..	..	..	..	1,198	55	..	82	14
Expenditures for international conferences	..	3	4	3	13	25	16	13	38	28	20[d]	15
Deficit of the railway administration including the lines of the new provinces	..	21	..	..	..	..	..	970	1,062	162	2,449[e]	178
Expenditures for exchange and commissions	..	..	21	21	96	127	..	..	..	5,780	14	..
Expenditures for maritime transportation	..	..	..	30	716	3,392	1,155	1,251	99	1,149[f]	907[f]	175[e]
Expenditures and losses of the food administration	..	..	2	3	21	28	19	29	3,500	8,151	1,240[f]	300
Total	..	36	507	1,069	2,754	6,935	3,382	7,157	8,125	18,057	7,560	3,284

[a] The payments for war pensions differ considerably from the final results of the respective fiscal years, on account of the delay in their liquidation.

[b] Of which 410,000,000 were paid with special funds of the treasury and new issues of paper money.

[c] The fiscal deficit of the Railroad Administration for the fiscal year 1923–24 amounts to 411,341,000 lire. The larger payments refer to residual deficits of previous years which had not been liquidated.

[d] Refers to payment of previous deficits whose liquidation was delayed.

[e] Includes 819,483,000 lire for the fiscal year 1923–24 and 129,393,000 lire for the fiscal year 1924–25 as expenditures for the liquidation of the Merchant Marine Administration. These expenditures are, however, compensated in part by receipts relating to credits of said Administration.

[f] Includes 150,863 lire for the fiscal year 1922–23; 140,026 lire for the fiscal year 1923–24; and 10,376 lire for the fiscal year 1924–25 as expenditures for the liquidation of Food Administration. These expenditures are compensated, in part, by receipts as stated in the note above.

TABLE IV d

Military Expenditures Directly Due to the War, 1913–1925
(In millions of lire)

Year Ending June 30	1913	1914	1915	1916	1917	1918	1919	1920	1921	1922	1923	1924	1925
Army	..	..	1,961	6,566	11,382	14,853	13,972	7,730	1,483	1,340	7,246	4,674	438
Navy	..	..	135	375	532	930	1,235	819	538	822	247	132	123
Defence of the Colonies	..	..	15	7	15	14	14	10	12	..	..	..	..
Expenditures for the Home Troops Detached for the Colonies	..	..	103	92	89	61	125	75	18	46	49	16	8
Expenditures for Troops in Foreign Lands	..	..	..	..	..	..	..	..	..	17	23	19	5
Total	..	..	2,214	7,040	12,018	15,858	15,346	8,634	2,051	2,225	7,565	4,841	574

TABLE V

Tax Revenue, 1914–1925
(In millions of lire)
(Year ending June 30)

Nature of Taxes	1914	1915	1916	1917	1918	1919	1920	1921	1922	1923	1924	1925
Direct taxes . .	540.7	592.4	720.9	1,057.9	1,531.6	2,065.6	2,333.8	3,994.6	4,903.8	4,433.7	5,500.0	5,649.0
Customs and taxes on production[a]	621.4	462.0	643.5	929.3	1,131.0	1,251.7	1,882.3	2,380.8	3,541.6	4,038.2	3,700.0	3,932.1
Net proceeds of industrial monopolies and lottery	547.1	573.3	700.5	846.0	1,129.6	1,521.1	2,007.8	3,013.5	3,158.6	3,315.5	3,348.0	3,426.9
Taxes on business transactions . .	293.9	298.8	337.9	448.3	588.6	813.5	1,298.3	1,747.9	2,391.2	2,428.0	2,760.0	3,042.1
Total national taxation . .	2,003.1	1,926.5	2,402.8	3,281.5	4,380.8	5,651.9	7,522.2	11,136.8	13,995.2	14,215.4	15,308.0	16,050.1

[a] Includes the rates of exchange for custom duties and the receipts from commercial monopolies established in 1919–20 and transformed into indirect taxes in 1921–22.

In Table V are given the tax revenues, again according to the *bilancio di competenza.* The data are drawn from the same source as that relating to expenditure, namely, the official memoranda of the Italian government prepared in connection with the negotiations for the funding of the Italian foreign public debt. In Appendix D appears some discussion of the growth of tax revenues and the nature of fiscal policy in these years.

The following tables aim to show in detail the receipts for the three fiscal years, 1923–24, 1924–25, and 1925–26. Table VIa presents the *authorized budget* figures for those years (*bilancio di competenza*), while Table VIb shows the actual receipts (*incassi di bilancio*, inclusive of *riscossioni* and all other sorts of actual income) for the same years.

The very large total for 1923–24, in Table VIb, requires a word of explanation. It arises chiefly in connection with the extraordinary section of the budget, under the item "other extraordinary receipts" (*altre entrate straordinarie*). In Table VIc appears an analysis of the principal receipts in the extraordinary budget (*incassi di bilancio*), for the two years, 1923–24 and 1924–25. The larger part of the receipts here listed are seen to proceed from accounting adjustments. In view of the fact that the official figure 25,792 million lire for receipts consisted of so many accounting adjustments, Professor Mortara, in his *Prospettive Economiche* for 1925, made use of a figure authoritatively put forward as representing the actual cash receipts clear of all accounting additions. This figure is 18,654 million lire, which is the one we have adopted in the table on page 341.

TABLE VI a

Ordinary and Extraordinary Revenues, 1923–1926 *

(*Bilancio di Competenza*)

(In millions of lire)

Ordinary	Year Ending June 30		
	1923–24	1924–25	1925–26
Direct taxation	5,200	4,801	5,606
Taxation on transfers of property and business transactions	2,920	2,499	3,343
Taxation on transportation	123	129	132
Stamp duties on consumption	136	118	143
Indirect taxation (on consumption)			
Excise and license	1,363	1,466	1,790
Tax on wine	318	461	41
Supplementary tax on beverages	73	....	236
Customs duties and harbor dues	913	518	766
Exchange surcharge on customs duties	1,403	1,144	2,111
Other consumption taxation	366	301	329
Special contribution support of wounded veterans	269	399	67
Monopolies	3,611	3,518	3,850
Receipts from public services			
Posts, telegraphs, and telephones	911	812	....
Sundry services	79	93	77
Reimbursements	625	682	672
Miscellaneous	560	760	823
Total ordinary	18,871	17,702	19,986
Extraordinary			
Industrial monopolies	0.2	0.1	
Direct taxes and customs duties	0.9	4.5	
Grown properties and fees	0.1	3.2	1
General supply office	0.1	0.2	
Posts and telegraphs	0.3	0.3	
Repayments and contributions	14	11.4	14
Disposal of war material	118	192	59
Receipts from recovery of sums disbursed	354	75	112
Receipts from the new provinces	....	199	....
Sale of goods received on account of reparations	450	390	10
Miscellaneous	576	512	207
Cash balances from liquidation autonomous administration, merchant marine	....	1,441	....
Receipts from liquidation of Ministry of Food	72	....	....
Total extraordinary	1,585	2,830	404
Total All Revenue	20,457	20,533	20,390

* *Gazzetta ufficiale*, July 24, 1925, and July 20, 1926.

TABLE VI b

ORDINARY AND EXTRAORDINARY RECEIPTS, 1923–1926 *
(In millions of lire)

ORDINARY	YEAR ENDING JUNE 30		
	1923–24	1924–25	1925–26
National domain	29	88	268
Direct Taxation:			
A. Permanent			
(1) Landed property	129	134	148
(2) Improved property	197	244	293
(3) Intangible property	2,985	2,572	3,137
B. Temporary			
(1) War profits	607	528	542
(2) Capital gains due to war	218	180	165
(3) Capital (general)	812	984	1,009
(4) Corporation Officers' fees	17	8	3
(5) Directors' fees	7	6	3
(6) Supertax	205	283	137
(7) Dividends	48	58	82
(8) Others	231	135	36
Total direct taxation	5,456	5,132	5,555
Taxation on transfers of property and business transactions and various fees	2,475	2,853	3,271
Taxation on transportation	275	232	294
Stamp duties on consumption	120	129	141
Indirect taxation (on consumption):			
Excise and license	1,480	1,391	1,845
Tax on wine	501	386	241
Supplementary taxes on beverages and meats	6	....	....
Customs duties and harbor dues (including exchange surcharge)	2,183	2,314	2,855
Coffee	193	245	229
Petroleum	97	128	76
Total indirect taxation	7,330	7,678	8,952
Special contributions in support of wounded veterans	397	215	57
Monopolies	3,531	3,631	3,868
Receipts from public services and miscellaneous	2,398	2,769	2,138
Total ordinary	19,139	19,513	20,838
EXTRAORDINARY			
Reimbursements	687	29	102
Miscellaneous receipts from disposal of war materials	193	108	51
Receipts from new provinces	130	....	....
Liquidation of autonomous administrations	132	60	19
Other extraordinary receipts	5,191	805	331
Recovery from past years	321	51	159
Total extraordinary	6,654	1,053	661
TOTAL ALL RECEIPTS	25,793	20,566	21,499

* *Gazzetta ufficiale*, July 24, 1925, and July 20, 1926.

TABLE VI c

EXTRAORDINARY RECEIPTS, 1923–1925
(*Incassi di bilancio*)
(In millions of lire)

	YEAR ENDING JUNE 30	
	1924	1925
(Principal accounting adjustments)		
Reimbursement of expenditure by the government for the merchant marine, on account of various public services, and private concerns	683	19
Adjustments of wartime food administration accounts	132	60
Reimbursements from, and proceeds of special operations during the war, heretofore not provided for in the budget	2,600	..
Transfer of the unexpended balance of the Treasury's current account for the merchant marine (accounts formerly handled outside the budget but later incorporated therein)	1,184	..
(Principal items concerning the two fiscal years — 1923–1925)		
Reimbursement of expenditure	91	354
Payment of advances made outside the budget	4	62
Interest on advance payments to the National Institute of the Venetian Provinces for War Damages	201	7
Sale of surplus war material	193	108
Sale of material received from Germany under the reparation clauses of the Treaty of Versailles	1,035	310
Receipts from Julian Venetia and Trent	130	..
Receipts from privately owned railroads on account of increased passenger rates	261	..

A detailed analysis of the expenditure, as authorized for the fiscal years, 1923–1926, is shown in Table VIIa; while in the following table, VIIb, appear the actual disbursements effected. In both cases, the classification is by ministries. It will be

recalled that since the reorganization of the administrative structure of the government by the Fascist Administration, pensions, supplies, and other items formerly spread through a number of departments, have been gathered into the Ministry of Finance. This fact, and the large expenditure on capital account, explain the magnitude of the funds disbursable by the Minister of Finance. The disbursements in Table VIIb for the fiscal year 1923–24 are very large. The figure officially reported is again as in the case of the receipts for that year greatly swollen on account of extensive account adjustments. Professor Mortara, endeavoring, as in the case of receipts, to arrive at a figure wholly free from accounting elements, submits a total derived from an authoritative source of 16,007 million lire as the actual cash disbursements. This figure we have used in the table on page 341.

TABLE VII a

ORDINARY AND EXTRAORDINARY EXPENDITURE, 1923–1926 *
(*Bilancio di competenza*)
(In millions of lire)

MINISTRY	YEAR ENDING JUNE 30		
	1924	1925	1926
Finance	13,063	11,379	6,938
Justice	411	448	494
Foreign Affairs	144	148	202
Colonies	414	420	406
Public Instruction	1,067	1,208	1,380
Interior	687	884	683
Public Works	744	1,082	1,258
Communications	934	1,147	252
War	2,368	2,262	2,803
Navy	1,155	1,010	1,089
National Economy	168	259	308
Aeronautics	....	.....	560
Total	21,155	20,247	16,373

* *Gazzetta ufficiale*, July 24, 1925, and July 20, 1926.

TABLE VII b

ACTUAL DISBURSEMENTS BY MINISTRIES, 1923–1926 *
(*Pagamenti di bilancio*)
(In millions of lire)

MINISTRY	YEAR ENDING JUNE 30		
	1924	1925	1926
Finance	19,222.6	11,760.4	10,475.3
Justice	427.4	420.7	466.2
Foreign Affairs	123.9	149.3	163.4
Colonies	437.5	259.8	422.6
Public Instruction	1,098.2	1,142.9	1,309.4
Interior	628.9	736.3	612.4
Public Works	1,364.0	1,190.9	1,247.6
Communications	1,096.4	1,068.9	449.3
War	5,932.3	2,639.4	2,698.4
Navy	1,810.4	963.4	1,079.2
National Economy	220.0	244.4	368.7
Aeronautics	0	0	370.9
Total	32,361.6	20,576.6	19,664.0

* *Ibid.*

III. THE RESIDUAL ACCOUNTS (RESIDUI)

It becomes necessary to revert to the unsettled accounts concerning which something was said at the beginning of this Appendix. As was pointed out on page 331, the Italian Treasury does not necessarily disburse exactly the amount that is authorized to be disbursed in the fiscal year for which it is appropriated, if indeed it disburses any portion of that amount at all. A great multitude of circumstances may operate to delay, or wholly to prevent, actual disbursement; and again, other circumstances may delay or wholly prevent the collection of revenues properly assessed and legally due. In the event that the amounts assessed and due can be collected, it is conceivable that in normal times the Treasury will accumulate liquid funds of some size. In abnormal times this, of course, is impossible; then, no large funds can be collected and can be accumulated except through

borrowing. Mention has already been made of the possibility of employing unexpended balances (which in Italy as in most other countries comprise the bulk of what is known as the general fund of unappropriated money in the Treasury) for the purpose of retiring short-term obligations and even state currency.

An accurate comprehension of the nature of these suspense accounts known as *residui* is of paramount importance for a person attempting to measure the extent of the budgetary burden of Italy in the near future. On June 30, 1925, the residual liabilities of the Italian government not only for the fiscal year ending on that day but for all preceding periods amounted to 16,309 million lire, that is to say, in the state in which accounts stood at that time, this large amount of obligations had yet to be settled. On the other hand, the residual assets, if one may use such a term, amounted to 6,867 million lire, that is to say, taxes and other revenues aggregating this amount was still due to the Treasury or remained to be accounted for in some fashion. An adverse balance of 9,442 million lire would, therefore, appear to exist.[11]

But among the sums due to the Treasury and aggregating the total of 6,867 million lire just mentioned, there appear the proceeds of authorized borrowing amounting to 2,613 million lire. This borrowing was specifically authorized in order to meet specific appropriations. Inasmuch, however, as the Treasury had been able, in the three fiscal years 1922–1925, greatly to expedite the collection of revenue, the borrowing had not been necessary. This sum, therefore, amounting to 2,613 million lire, is no longer to be regarded as a resource or asset to the Treasury and in due time will be stricken from the list of residual assets. When this deduction has been made, the potential but unrealized

[11] For the information contained in this and the following paragraphs concerning the *residui*, the author is indebted to the kindness of the Accountant General of the Italian government, Professor Vito De Bellis, who furnished the information upon request. Reference may be made also to the extensive records relating to *residui* in the *rendiconti generali consuntivi* of recent years and also to the sets of *Documenti* (May and December, 1923) mentioned in note 2, p. 332.

resources of the Treasury would amount to 4,254 million lire as against possible liabilities of 16,309 million lire, thus presenting an adverse balance of 12,055 million lire.

The composition of the residual liabilities is exceedingly complex. Many of the items which comprise this account in no way reflect or give rise to an actual movement of cash. Again, many of these items are capable of transformation into simple accounting adjustments or are disposed of through the issue of securities, as was the case with the allocation of bonds either to cover war damages or to make up the reserves against which were issued insurance policies for wounded veterans. Taken all in all, the non-cash items aggregate 5,498 million lire in the category of expenditure and 869 million lire in that of revenue. Hence, the sum actually to be paid in cash, if and when liquidated, would amount (always as of the date of June 30, 1925) to 10,811 million lire and the sum actually to be collected to 3,385 million lire, a deficit, therefore, of 7,426 million lire.

The most searching scrutiny has been directed by the general accounting office into the nature and necessity and all attendant circumstances of such sums whose eventual liquidation would involve the payment of cash for its receipt. The elimination of superfluous expenditure, which the necessarily slow operation of government had considerably delayed, became an objective of paramount importance directly after the war; and during the three fiscal years, 1922–1925, the revision of all these belated suspense accounts has been carried on with the utmost rigor. At the end of the fiscal year 1922, the residual assets had stood at 22,270 million lire and the residual liabilities at 43,060 million lire; three years later they had been reduced, as indicated above, to 6,867 and 16,309 million lire, respectively.

Analysis of the total of 6,867 million lire of unrealized assets, as they stood June 30, 1925, throws some light on their significance. Thirteen per cent of the total was represented by items to be adjusted by bookkeeping transfers. Forty-eight per cent consisted of the proceeds of authorized borrowing, of authorized sales of goods or property, and like operations. Thirty per cent

of the total was to be covered by the yield of taxation, due but not yet in hand. Of this 30 per cent scheduled to be received in the guise of tax payments, 2,089 million lire in all, it appears that 1,311 million lire were actually in the possession of tax collectors, but had not yet been paid into the government. Finally, 9 per cent represented various unrealized receipts, such as 180 millions due from the sale of deliveries in kind under the reparation clauses of the peace treaties, and 228 millions due from provincial and communal administrations by way of reimbursement of advances.

The following Table (VIII) shows the composition of the residual assets as of June 30, 1925.

The reasons for delay in disposing of the residual liabilities are numerous and fairly familiar: in the case of contracts, delay or non-compliance in fulfilling the work; in the case of personal services, pensions and the like, delays in satisfying routine requirements. Table IX shows the composition of the residual liabilities as of June 30, 1925. The first two items, as indicated on page 356, automatically drop out; the balance of 10,811 million lire is presumably covered to the extent of 3,385 millions expected to be realized from the residual assets, and the net liability will amount to 7,426 million lire.

Of the significance of the probable ultimate burden of net liability not liquidated, Accountant General De Bellis, when transmitting these data to the author, wrote as follows: "Unquestionably this burden must impose a program of the strictest economy upon the public finances of Italy. Yet we may look forward with confidence, not only because a fairly large part of the residual liabilities will result in cash payments only over a number of fiscal years, but also because the settlement of the older *residui* is balanced, on the whole, by the formation in each year of new *residui*. Moreover, the gradual improvement of the budget as a whole, and the progressive reduction of the items which occur in the residual accounts combine to foreshadow the development of an absolutely normal situation in the not distant future."

TABLE VIII

Revenue Due But Not Yet Received, June 30, 1925
(Residui Attivi)
(In millions of lire)

Description of Assets	Sums Collected by Agents but Not Yet Paid into Treasury	Sums Yet to Be Collected	Total Receivable
Accounting adjustments . .	259	610	869
Receipts in the categories of capital movements and railroad construction			
Proceeds of borrowing, including borrowing for railroad construction . . .	....	2,791	2,791
Unrealized credits . . .	....	79	79
Sale of property	....	5	5
Various anticipations . .	....	409	409
Total	....	3,284	3,284
Receipts from taxation			
Direct taxes	1,182	497	1,679
Capital turnover tax . .	59	217	276
Indirect taxes (consumption)	42	53	95
Industrial monopolies . .	21	11	32
Quinine	7	....	7
Total	1,311	778	2,089
Various receipts			
Reimbursements from provinces and communes . .	....	228	228
Proceeds of sale of reparation deliveries	....	180	180
Miscellaneous	....	217	217
Total	....	625	625
General total of Residual Assets June 30, 1925.	1,570	5,297	6,867

TABLE IX

OBLIGATIONS OF THE ITALIAN TREASURY (OTHER THAN PUBLIC DEBT) NOT YET LIQUIDATED, JUNE 30, 1925 (RESIDUI PASSIVI)

(In millions of lire)

Accounting adjustments	3,369
Expenditure effected (i.e. disbursements) and charged up against the proceeds of borrowing	2,129
Advances to the State Railroads for construction and related purposes, subject to reimbursement	1,524
War pension payments	830
Debt amortization allocations	264
Colonial administration	175
Public instruction	299
National economy	286
Public works	2,080
Wartime military, naval, and air-service expenditure	2,446
Merchant marine subsidies	367
Expenditure incurred in connection with industrial monopolies, or posts, telegraphs and telephones	612
Civil administration, miscellaneous	1,928
Total	16,309

APPENDIX C

DATA RELATING TO THE PUBLIC DEBT

I. PRE-WAR DEBT HISTORY

One of the first tasks to be undertaken by the unified Italian Kingdom was the consolidation of the public debt recognized by the states absorbed in the new Kingdom. This was not a simple task, inasmuch as the variety of forms of debt had been quite extensive and the records concerning its distribution were of uneven value. In the end, little attempt was made to differentiate between the various debts which were brought together as consolidated debt (*rendita*). By virtue of the laws of July 10 and August 4, 1861, the government set up the *Gran libro del debito pubblico italiano*, wherein were incorporated all the irredeemable debts of the governments which had come to an end.

The new debt was divided into two main groups, one at five per cent, and the other at three per cent, the total of these main categories amounting to 2,241 million lire. From 1862 to 1875, the heavy deficits led to frequent issues of *rendita*. In the year 1865 alone, new debt was incurred in excess of a half billion lire and in the following year no less than 836 million lire of borrowing took place. This, of course, was the year of war with Austria, itself expensive and terminating with a substantial payment to the Austrian Government, the funds for which were raised through the sale of *rendita*.

It is hardly necessary to follow year by year the growth of the public debt. In the late sixties the improvement in the revenue account of the government made it possible to make somewhat less use of the process of borrowing to cover deficits; but by this time the redemption of previously issued indebtedness had begun to call for increased appropriations serving in

turn to force further borrowing. In the two years 1870–71, forced loans of irredeemable bank notes to the Treasury aggregated 322 million lire. The problem of digesting this unwieldy and unwholesome debt was one of the first to be solved by the administration representing the parties of the Left. By virtue of a law of April 7, 1881, the government contracted a loan with the National Bank — at that time the principal bank of issue — taking the form of 36.4 million lire of *rendita*, 5 per cent, having a nominal capital value of 730 million lire but consisting of 644 million lire in specie. The National Bank secured the funds with which to make the loan from certain Italian sources, but chiefly from two banks in London and one in Paris. Approximately 651 million lire of indebtedness were cleared up through this operation, not all of it, however, from the category of forced bank loans. Although in form this operation consisted of the conversion of one form of domestic debt into another, in substance it constituted the first large-scale foreign borrowing of the new Italian State.

During the twenty years terminating in 1905, railroad construction constituted the chief source of borrowing. Administrative deficits and pensions, however, also figured largely, particularly in the closing years of the nineteenth century in which also occurred another resort to borrowing by means of forced currency issues. An approach to the task of completing the consolidation into *rendita* of the various forms of short-term and floating indebtedness was begun in the middle nineties. In 1894 two new tax-free categories of *rendita*, respectively at 4.5 and 4 per cent were created to serve for purposes of converting the 5 per cent category. Eight years later, *rendita* bearing the rate of 3.5 per cent was created to be used in converting various issues of redeemable debt and the 4.5 per cent *rendita*, having a special guarantee against further conversion to a lower rate of interest until June 30, 1916.

The great financial operation of Italy in the field of her public debt took place in 1906. In consequence of the law enacted June 29 of that year, the four and five per cent categories of *rendita*

del consolidato were converted into the category of 3.5 per cent with the exception of certain specially ear-marked issues of the 4.5 per cent *rendita* held by hospitals and other charitable institutions. This important conversion not only cut down the burden of interest payments in striking fashion, but it led to the rapid repatriation of a large portion of the earlier issues which had gone abroad in consequence of the operation of 1881 and successive French and British purchases of Italian public securities. The following figures show the initial effect of the operations upon the annual debt charges (including both redemption and interest payments).

EXPENDITURE ON INTEREST AND AMORTIZATION OF THE PUBLIC DEBT, 1902–1913*
(In millions of lire)

YEAR ENDING JUNE 30	PERPETUAL DEBT	REDEEMABLE	INTERMEDIATE	TOTAL
1902	480	86	128	694
1903	486	82	119	687
1904	484	80	119	683
1905	481	79	119	679
1906	479	79	114	672
1907	430	78	97	605
1908	380	78	104	562
1909	380	80	110	570
1910	380	83	114	577
1911	380	90	119	589
1912	370	90	119	579
1913	360	90	149	599

* Not including pensions. Taken from the *Bilancio del Regno d'Italia dal 1862 al 1912–13.*

In consequence of the heavy cost of the Libian War, the debt charges rose for the year 1912–13 to 737 million lire of which about 360 million were on account of the perpetual *rendita.*

In the main the growth of the public debt from the time when Italian political unity was established is to be ascribed to the railroad construction program and the constant accumulation of budgetary deficits. The total carrying charges of consolidated

and floating indebtedness increased approximately four times in the half century before the war.

On June 30, 1914, the public debt of Italy consisted of the following main categories and amounts.[1]

	Million lire
The Consolidated Debt	
Rendita	9,922
Redeemable	4,918
Floating Debt (including short-term certificates, currency notes and current accounts)	926
Total	15,766

II. THE DOMESTIC DEBT DURING THE WAR

During the fiscal year 1914–15, the debt position was seriously modified in consequence of the necessity of preparing for any emergency. Advances from the banks of issue to the Treasury amounted to 1,613 million lire and the Treasury's own notes were increased by 268 million, while not less than 1,087 million of redeemable bonds were issued (maturing in 25 years, bearing 4.5 per cent interest and issued at 97) and brought into the Treasury approximately 970 million lire. At the end of the fiscal year 1914–15, the situation stood as follows:

	Million lire
The Consolidated Debt	
Rendita	9,922
Redeemable	6,006
Floating Debt	2,768
Total	18,696

With the entrance of Italy into the war, dependence upon credit operations rapidly augmented the public debt. In this first full fiscal year of war-time finance, the addition to the national debt amounted to 5,162 million, comprising mainly redeemable bonds of varying maturities. The first step towards the borrowing of

[1] These debt figures for the period down to June 30, 1923 are taken from the *Documenti*, December, 1923, p. 222.

money abroad for military purposes was also taken this fiscal year. In view of the special character of these transactions abroad, the discussion of their amount, objects, and the procedure followed in incurring them is taken up separately on page 371.

On June 30, 1916, the statement of the domestic debt was as follows:

	Million lire
The Consolidated Debt	
Rendita	9,922
Redeemable	9,869
Floating Debt	4,066
Total	23,857

In the following fiscal year, the Treasury turned to a great consolidation loan on a 5 per cent basis, in consequence of which nearly 47,000 million lire in redeemable debt was retired. But the expenditures of the military establishment and the tremendous cost of imported cereals and fuels led to a great increase in the short-time financing of the Treasury. At the close of the fiscal year, 1916–17, the debt position of the Treasury, so far as domestic obligations were concerned, was represented by the following amounts:

	Million lire
The Consolidated Debt	
Rendita	17,064
Redeemable	5,171
Long-Term (fixed maturity bonds)	2,422
Floating Debt	9,037
Total	33,694

The fiscal year 1917–18 witnessed some of the most trying periods from the financial as well as the military point of view experienced by the belligerent nations. Despite heavy borrowing in London and Washington as well as less extensive credit operations in other centers, Italy was obliged to borrow right and left at home. Another large issue of the 5 per cent consolidated loan brought in some 6½ billion lire, while short-term

Treasury operations provided about the same amount. As of June 30, 1918, the debt statement included the following obligations outstanding:

	Million lire
The Consolidated Debt	
Rendita	23,752
Redeemable	5,113
Long-term (fixed maturity bonds)	3,078
Floating Debt	16,459
Total	48,402

Even though hostilities came to an end less than five months after the beginning of the Italian fiscal year 1918–19, the volume of military and civil expenditure incidental to the conduct of the war hardly diminished. It was impossible to demobilize the financial machinery of the State any more rapidly. Apart from the issue of three, five, and seven-year bonds, the credit operations of the Treasury were mostly confined to the category of floating debt, so that on June 30, 1919, it had outstanding the following domestic obligations:

	Million lire
The Consolidated Debt	
Rendita	23,514
Redeemable	5,067
Long-term	5,835
Floating Debt	25,797
Total	60,213

A supreme effort to absorb a large portion of the floating indebtedness, which now nearly equalled the funded debt, was undertaken in the fiscal year 1919–20. A nation-wide appeal on grounds of patriotism led to the conversion of approximately eight billions of both funded and unfunded indebtedness, the consolidated five per cent *rendita* being augmented not only by this amount but to the extent of eleven billion lire additional in the form of new subscriptions. The good effect of this operation on the floating indebtedness was somewhat neutralized by substantial recourse to banking advances (2,307 million lire) necessary to

enable the Treasury to assist in the difficult task of industrial readjustment. At the end of the fiscal year 1919–20, the domestic debt of Italy appears to have corresponded to the following statement:

	Million lire
The Consolidated Debt	
Rendita	43,275
Redeemable	5,020
Long-term	4,013
Floating Debt	22,188
Total	74,496

It may be of interest, at this point, to bring together the results of the domestic borrowing operations of the Italian Treasury, during and just after the war. The six great loans to which reference has been made in the preceding pages yielded the following amounts, beside which are shown their rough equivalents in lire of pre-war purchasing power.

SUBSCRIPTION TO THE NATIONAL LOANS, 1914–1920*

	IN MILLIONS OF LIRE (actual)	IN MILLIONS OF LIRE (according to pre-war values)
December, 1914	881	933
June, 1915	1,124	878
December, 1915	2,637	1,547
January, 1917	3,700	1,613
January, 1918	5,926	1,632
January, 1920	18,385	3,624
Total	32,653	10,227

* From official memoranda of the Italian government prepared in connection with the negotiations for the funding of the Italian foreign public debt, 1925. This table is taken from material prepared by Professor Livi of the University of Trieste. The reduction to pre-war values was made on the basis of wholesale prices compiled by the Statistical Service of the League of Nations.

The total short-term public borrowing at home during the period between July 1, 1914, and June 30, 1920, would not be

easy to calculate, since renewals could not be readily separated from new borrowings; but what is important is that by 1919 the outstanding floating debt amounted to nearly twenty-six billion lire, and at the conclusion of the period to a little over twenty-two billions. Finally, the currency issued by the Treasury directly had increased from about 500 million lire (June 30, 1914) to 2,269 millions (June 30, 1920); and the banknotes advanced by the banks of issue to the government under authorizations granted early in the period under review aggregated 10,333 million lire at its end.

There can be no thought, of course, that the total financial cost of the war to Italy is represented by the aggregate of nearly seventy-five billion lire of indebtedness (as of June 30, 1920). Many billion lire had still to be added in the course of the next few years, when all the extra-budgetary operations were brought within the scope of the budget, and when the clearing-up of the prodigious mass of floating accounts (*residui*) was carried along.

III. THE DOMESTIC DEBT, 1920-1925

The untoward condition of business generally, and particularly that of the industrial community, affected the government's finances adversely in the fiscal years 1920–21 and 1921–22, and constant resort was had to the issue of short-term certificates of the Treasury.

Inasmuch as these two years are not characterized by striking differences in the growth of the public debt, they are embraced in the following single statement, which, therefore, covers the period July 1, 1920–June 30, 1922.

	Million lire	
	June 30, 1921	*June 30, 1922*
Consolidated Debt		
Rendita	44,382	44,448
Redeemable	4,971	4,920
Long-term	5,619	7,232
Floating Debt	31,388	36,148
Total	86,360	92,748

The Fascist Administration has succeeded in reducing the public debt. The high-water mark of the domestic debt was reached during the fiscal year 1922–23. It was in the fifth month of that year (November, 1922) that the Fascist Administration began. At the time that Professor de' Stefani, the first Minister of Finance of the new régime, undertook the systematic reorganization of the domestic debt as one of his first tasks, it was expected that by 1924 the domestic debt would have exceeded one hundred billion lire. At the outset, of course, it was clear that any impression to be made on the gross debt must come by way of reducing the cost of temporary accommodation of the Treasury and by converting as much of the outstanding floating debt into obligations of lower interest rates and longer maturities as possible.

In order to accomplish the first object, namely, the cheapening of the cost of temporary borrowing, the government took a number of measures intended to restore public confidence in the solvency and future prosperity of the state. These measures are indicated on page 100; it will suffice here merely to mention the rapid reorganization and simplification of the tax system and particularly the friendly gestures of private capital involved in the abolition of the inheritance tax and related policies. Judicious support of the *rendita* and other securities, either directly on account of the Treasury or indirectly through private channels, soon began to cause a steady upward swing of market quotations for all the funded debt until several varieties actually reached their par value in 1924. The cost of Treasury borrowing was steadily brought down according as the determination of the government to incur no new debt, domestic or foreign, came to be realized by the public in general. The results achieved from year to year are discussed in the following paragraphs.

1. *Fiscal year, 1922–23.* So far as relates to retirement or conversion of debt, little could be accomplished in the seven remaining months of the fiscal year. While about 770 million lire of floating debt was retired or converted, the total funded debt increased by 3,435 million lire because the budget continued

to be unbalanced. At the end of the fiscal year 1922–23, the total domestic debt consisted of the following amounts:

	Million lire
The Consolidated Debt	
Rendita	44,445
Redeemable	4,867
Long-term	10,741
Bonds for reconstruction in Venetia	5
Floating Debt	35,486
Total	95,544

2. *Fiscal year, 1923–24.* In 1923–24, the internal debt was reduced on balance in this first full year of the Fascist régime by 2,380 million lire. The total decrease amounted to five and one-half billions but this was in part offset by increases exceeding 3,100 millions.

The policy outlined for the fiscal year 1922–23 was followed with great success during 1923–24. Treasury certificates of less than one year's maturity were retired with the proceeds of nine-year bonds; and three- and five-year bonds were likewise taken up or exchanged. The increases in debt consisted in the main of nine-year bonds and Venetian reconstruction issues. By the end of this fiscal year, the credit of the government had been so strengthened that the average interest rate on short-term borrowing for the entire fiscal year did not exceed 4.80 per cent.

3. *Fiscal year, 1924–25.* During the fiscal year 1924–25, a further reduction was effected, this time to the extent of 2,316 million lire. Once more the reduction was due to the retirement of short-dated Treasury obligations in the main, but over a billion lire of three- and five-year bonds were also converted. The unexpended balances in the Treasury permitted some use to be made of liquid funds in meeting notes and certificates as they came due. Account must be taken here of the retirement of banknotes issued on Treasury account, as well as of currency directly issued by the Treasury. The outstanding total of notes of the three banks of issue for which the Treasury was liable declined from 7,764 million lire on June 30, 1923, to 7,476

millions twelve months later, and to 7,072 millions on June 30, 1925. The currency notes of the Treasury itself declined from 2,428 million lire outstanding on June 30, 1923, to 2,100 millions on June 30, 1925. As pointed out on page 343, various Treasury operations in these two years, particularly during the year 1924–25, reduced materially the general fund in the Treasury.

In the following table the state of the debt at the end of each of the fiscal years, 1923–24, 1924–25, and 1925–26, is shown, but in slightly different form from the annual summaries submitted

THE AGGREGATE INTERNAL DEBT, 1924–1926
(In millions of lire)

CLASSIFICATION	JUNE 30, 1924	JUNE 30, 1925	JUNE 30, 1926
All pre-war debt	12,531	12,488	12,443
Perpetual and long-term loans issued during and just after the war	35,998	35,998	35,997
Treasury bonds:			
Nine-year	4,000	5,996	6,836
Seven-year	4,000	4,000	4,000
Five- and three-year	3,468	2,415	1,672
Bonds for reconstruction in Venetia	471	908	1,075
Twenty-five-year bonds at 4.75 per cent	....	1,443	1,420
Redeemable bonds of former Austro-Hungarian Empire at 4.36 per cent	....	10	10
Total funded debt	60,468	63,258	63,453
Floating debt:			
Treasury certificates	22,236	17,589	17,832
Currency notes of 5, 10, and 25 lire	2,428	2,100	2,100
Bank notes on government account	7,476	7,068	6,729
Accounts current	555	832	1,195
Total floating debt	32,695	27,589	27,856
Aggregate internal debt	93,163	90,847	91,309

in the preceding pages, because of the fact that the Official Gazette has been segregating pre-war debt issues, from obligations issued after 1914. The statement, based on the *Gazzetta ufficiale* of July 20, 1926, presents the domestic debt position as of the summer of 1926.

In November, 1926, — too late for more than mention in this book, then in page proof, — the Fascist Administration decreed the obligatory conversion of all treasury bonds or certificates of 7 years' maturity or less into five per cent bonds inconvertible for at least 10 years. This gigantic operation, together with the currency measures mentioned on pp. 197 and 508, will relieve the treasury of preoccupations over floating or short term debt maturities for years to come.

IV. THE FOREIGN PUBLIC DEBT, 1915-1925

Italy's foreign borrowing began with an agreement between the Italian and British Treasuries in July, 1915, in accordance with which Great Britain was to grant Italy a credit of 60 millions pounds to be expended for supplies either in Great Britain or other markets where British credit had been mobilized. It would appear that this first British credit carried certain conditions. It seems to have been in connection with it that the Italian Treasury sent to London a large portion of the country's gold stock. In all not less than 562,360,000 lire in gold coin or bullion were transferred from Italy to England in the form of a deposit in the Bank of England. Of this total 158.7 millions were drawn from the reserves of the Italian Treasury, 272.1 millions from provincial funds on deposit in the Bank of Italy, and 131.5 millions were loaned by the three banks of issue to the Italian Treasury for the purposes of the transfer.[2]

The nature of this series of deposits is by no means clear. Neither government has yet published any formal report of such a character as to establish the past or present relation of the

[2] Stringher, *Memorie riguardanti la circolazione e il mercato monetario*, Rome, 1925, p. 20.

gold comprising the deposit to the metallic reserves of the British and Italian currency systems. There can be no doubt that the Italian deposit served to furnish some support to the British currency system during the time that credits were being extended by Great Britain to Italy.

British credits continued to increase in volume throughout the war. Italian purchases of supplies were financed by Great Britain, either directly or indirectly, down to the intervention of the United States in the war. From the very outset the officials of the British Treasury[3] provided that the interest accruing monthly on the deposit should be automatically compounded. This interest was to be calculated on a basis which would be governed, in the main, by the cost of money at the Bank of England. As a matter of fact the rate has averaged 5 per cent per annum. The Italian Treasury arranged to deliver to the Bank of England special bonds maturing within less than a year and providing for payment in gold lire. These bonds are so phrased as to be made payable to bearer, should the British government elect so to use them in that fashion. It appears that the capital of the British credits to Italy is about 377 million pounds, and the unpaid interest thereon amounted, by July, 1925, to 216 million pounds. These amounts when converted into gold lire represent, respectively, 9,508 and 5,487 millions. The official statement of the debt to Great Britain was reported by the Italian Treasury as of the end of July, 1925, as amounting to 14,595,055,400 gold lire, or 594.5 million pounds.

The United States Treasury extended credit to the Italian government within less than a month after the declaration of a state of war between Germany and the United States. The first credit opened at Washington in the name of the Italian

[3] Great Britain had had considerable experience in this connection. Loans were made by Great Britain to Frederick the Great, to the coalitions against Napoleon, to France and Sardinia in the Crimean War, even to Sardinia alone (£2 millions) in 1859. Four centuries before England's assumption of the role of banker for different Continental countries fighting on her side, she herself had borrowed from the bankers of North Italy, then the principal financial center of Europe; see p. 383.

government bears the date of May 2, 1917; the last credit so extended was dated April 30, 1919. Between these two dates $1,815 millions were credited to Italy; but on March 1, 1919, an unused balance of $125 million was withdrawn and subsequent adjustments and withdrawals brought the figure down to $1,647,869,197.96.[4]

[4] There was one particularly complicated adjustment which gave rise to a rather confused public discussion in 1921. It illustrates so well the involved nature of these transactions, that we reproduce the concise report on it contained in the *Annual Report* of the Secretary of the Treasury for 1921, pp. 37–8.

> This balance of credit in favor of Italy was extended for the purpose of enabling the Italian government to make such reimbursements in dollars to the British government as should be found due. Disposition of this credit was as follows:
>
> In the purchase of certain classes of commodities in this country for war purposes, and in certain other transactions connected with the war, the British government acted for France and Italy, who periodically reimbursed the British government out of the proceeds of advances from the United States Treasury. In settling these accounts, which had extended for many months, it was found that the amount of reimbursements still to be made by the Italian government to the British government was $16,695,063.91, and that the French government had overpaid the British government in excess of this amount. On March 30, 1921, an advance of $16,695,063.91 was made to Italy for the purpose of making said reimbursement to the British government. The indebtedness of Italy to the United States government was increased by this amount. In accordance with an agreement, the British government, at the time of the advance of said sum of $16,695,063.91 to the Italian government, simultaneously paid a like sum to the Secretary of the Treasury to be applied upon obligations of the French government held by the United States. As a result of this application, the indebtedness of France to the United States government was reduced in a like amount, by applying $15,265,504.26 as a payment on account of the principal of the obligations of the French government held by the United States, and $1,429,559.65 as a payment of the accrued interest to date of payment on said sum of $15,265,504.26. It will be noted that in carrying out this transaction no funds passed out of the United States Treasury, but that its effect was to adjust the accounts between the United States, the Italian, the French and the British governments.
>
> The remaining $18,226,128.82 of the balance of credit in favor of the Italian government, above mentioned, was withdrawn on March 30, 1921.

The Italian government gave for each credit so extended an obligation of the general tenor and purport of those delivered by Great Britain and the other countries in whose favor the Treasury at Washington opened similar credits. These obligations have, of course, been superseded by definitive bonds submitted under funding arrangements in the cases of countries whose debts to the United States have been funded; but it will be of some interest perhaps to glance through the text of one of these engagements which for several years constituted the sole evidence by way of a formal instrument of the debts of the Associated Governments to the Government of the United States. In noting the references to interest rates, the reader must bear in mind that as they stood in the possession of the Treasury down to, and through most of the year 1925, these obligations uniformly provided (in consequence of our own domestic legislation) for an interest rate of 5 per cent.

The Royal Italian Government, for value received, promises to pay to the United States of America, or assigns, the sum of . . . . . on demand, with interest from the date hereof at the rate of 5 per cent per annum. Such principal sum and the interest thereon will be paid at the Subtreasury of the United States in New York, or, at the option of the holder, at the Treasury of the United States in Washington in gold coin of the United States of America of the present standard of weight and fineness, or, at the option of the holder, at the Bank of Italy in Rome in gold lire at the fixed rate of . . . . . and at such other place of payment without deduction for any Italian taxes present or future. This certificate will be converted by the Royal Italian Government, if requested by the Secretary of the Treasury of the United States of America, at par, with an adjustment of accrued interest, into an equal par amount of 5 per cent convertible gold bonds of the Italian government conforming to the provisions of Acts of Congress of the United States known respectively as the Second Liberty Bond Act, Third Liberty Bond Act, and Fourth Liberty Bond Act. If bonds of the United States issued under authority of said Acts shall be converted into other bonds of the United States bearing a higher rate of interest than 4½ per cent per

annum, a proportionate part of the obligations of the Royal Italian Government of this series acquired by the United States under authority of said acts shall, at the request of said Secretary of the Treasury, be converted into obligations of said Royal Italian Government bearing interest at a rate exceeding that previously borne by this obligation by the same amount as the interest rate of the bonds of the United States issued upon such conversion exceeds the interest rate of 4½ per cent by not less than the highest rate of interest borne by such bonds of the United States.

For the Royal Italian Government

.....

Date..... ....

The machinery of the credits at Washington operated principally as follows. The Treasury delivered a warrant to the duly authorized Italian representative, indicating when the Federal Reserve Bank of New York would be prepared to honor it; the proceeds of this warrant then became a deposit of the Italian government in a bank or banks of its selection, and against it the authorized representative of the Italian government might draw for the purpose of purchasing within the United States supplies having to do with the conduct of the war, or paying for services directly connected with the transfer of the purchases to Italy. The loans made by Great Britain and the United States to Italy were in no sense huge volumes of specie capable of being taken out of the lending countries and used for any purpose whatever in Italy; nor were they even bundles of British and United States currency handed over the counter to the Italian Treasury officials to be spent in England or the United States on any objects which such officials might deem it expedient to buy. There is some illusion on this subject in many circles where the details, and for that matter the antecedents, of these great loan transactions of the war period have been forgotten, if they were ever known. So minute was the supervision of the Treasury of the United States over the credits in question that its officials reserved the right to refuse the issue

or honoring of warrants, the proceeds of which, in their opinion, were not to be expended upon purposes directly relating to the war.[5]

It will be recalled that the credits granted by the United States to the powers with which it was associated in the war against Germany were all expendable in the United States. To a large extent, the same limitation rested upon the credits accorded by the British government. The following lists include all the commodities actually acquired by and services actually debited to, the Italian Government either in Great Britain or the United States.[6] The lists do not show quantities, nor the dates of acquisition by the Italian government. Nor will they serve as precise indices of the value of the composition of the exports of the United States directly connected with the participation of Italy in the war; for example, the large amount set down for coal — £37.5 millions — represents purchases made from the British credit which could hardly have been possible but for the quantity of coal which the United States was able to furnish in place of regular British supplies (bunker coal in the Atlantic, Caribbean, Far East, etc.). Finally some debatable items, such as transportation charges of the United States Shipping Board, do not appear.[7]

[5] See much of the correspondence in *Senate Document 86, 67th Congress, 2d Session;* and the article of former Assistant Secretary of the Treasury Rathbone, "Making War Loans to the Allies" in *Foreign Affairs,* New York, April, 1925, pp. 371–98; see also *Hearings before Senate Committee on Finance United States Senate 67th Congress 1st Session on S. 2135* (the first funding bill), June 29–July 28, 1921. For general official records of the Treasury see the *Annual Report of the Secretary of the Treasury on the State of the Finances* for the respective fiscal years since 1919. Other hearings and the *Congressional Record* contain miscellaneous data on the subject. Unofficial discussions worthy of note are those of Fisk, *The Inter-Ally Debts,* New York, 1924; National Industrial Conference Board, *The Inter-Ally Debts and the United States,* New York, 1925; Mautner, *Die Verschuldung Europas,* Frankfurt, 1923.

[6] These lists are included in official memoranda of the Italian government prepared in connection with the negotiations for the funding of the Italian foreign public debt, 1925.

[7] The question of Italy's obligations for transportation services performed by the United States Shipping Board is rather com-

VALUE OF COMMODITIES PURCHASED UNDER UNITED STATES TREASURY CREDITS

	In dollars
FOODSTUFFS	
Grains, including purchases through the Inter-Allied Wheat Commission	342,592,802.00
Flour	2,848,774.37
Rice	735,175.19
Rye	500,000.00
Sugar	9,230,697.54
Bacon	32,270,688.34
Ham	22,919,708.44
Boiled Meat	15,923,942.34
Tripe	10,662,854.73
Corned beef	8,970,759.02
Sausages	8,004,987.13
Frozen Meat	5,586,040.01
Condensed Milk	4,639,111.94
Salt Meat	4,082,615.74
Dried Fish	3,942,026.93
Shoulders	3,390,553.56
Tongues	3,170,081.10
Cottonseed Oil	2,626,102.00
Vegetable Seed Oils	2,379,502.63
Roast Beef	1,856,703.82
Beef Loaf	876,027.60
Miscellaneous	3,200,213.39
CRUDE AND MANUFACTURED METALS	
Copper	49,736,535.21
Steel	38,514,380.22
Brass	12,286,656.73
Cast iron	7,397,378.99
Zinc	4,203,599.68
Tin plate	3,777,931.48

plicated. In a printed *Memorandum of the Royal Italian Government in Connection with War Transportation Furnished . . . during the War and the Armistice Period* (New York, 1921) the Italian government, through an authorized representative, contended that whereas it had been debited to the extent of $64.8 millions, the total cost to the United States amounted to but $31.4 millions. Emphasis was laid upon an undertaking that the transport service furnished by the United States government during the war would not be operated for profit. The Italian government claimed a credit for $36.6 millions ($31.9 millions plus interest). When the negotiations of November, 1925, began, argument on this set of accounts was waived by the Italian delegation in its acknowledgment of the indebtedness as calculated by the United States Treasury.

	In dollars
Aluminum	2,976,693.19
Nickel and Copper nickel	2,838,106.45
Rods	2,640,497.84
Forgings	936,002.94
Barbed wire and Steel ropes, lbs. 326,923,514 at $0.045	15,881,581.25
Miscellaneous	1,502,045.02
EXPLOSIVES	
Nitrocellulose Powder	29,036,547.99
Trinitrotoluol (T.N.T.)	10,788,870.64
Cartridges	2,983,888.76
Nitroglycerine	1,937,509.00
Dynamite	1,584,000.00
Selenite	1,496,000.00
Balistite	947,951.37
Miscellaneous	472,980.27
RAILWAY MATERIAL	
Railway wagons	18,062,500.00
Locomotives	9,161,321.21
Spare parts for wagons and locomotives	4,240,603.81
Wheels	4,221,799.09
Axles	1,185,000.00
Steel springs	481,516.09
FUEL AND LUBRICATING OILS	
Gasoline	19,805,093.40
Lubricating Oil	4,492,275.34
Petroleum	1,443,055.63
Grease	203,766.72
Various Oils	335,000.00
Miscellaneous	307,356.07
CHEMICAL PRODUCTS AND DRUGS	
Glycerine	11,691,373.49
Picric Acid	7,593,551.71
Ammonium Nitrate	3,130,739.51
Naphtha	729,297.80
Caustic Soda	515,163.10
Paraffin	459,549.18
Miscellaneous	885,864.78
MILITARY EQUIPMENT	
Cotton goods	5,134,599.74
Blankets	2,046,484.30
Overcoats	973,703.79
Horses and Mules and incidental expenses	1,326,031.42

SUNDRY MATERIAL

	In dollars
Sundry Timbers	4,727,557.71
Cotton linters and cleaned cotton	1,325,708.32
Tarpaulins	1,248,150.95
Motorcycles and spares	979,887.73
Searchlights and electrodes	773,398.53
Cord and twine	508,923.08
Tents, cranes, files, saws, lenses, corks, films, magnets, gyroscopes, roof girders, asbestos, bulbs, etc.	3,277,303.31
Miscellaneous	1,150,320.76

VALUE OF COMMODITIES PURCHASED UNDER BRITISH TREASURY CREDITS

FOODSTUFFS

	In pounds
Various cereals	30,865,343–13– 1
Sugar	2,539,032–10– 9
Frozen meat	23,067,975– 4 –0
Dried cod and herrings	1,709,310–11– 0
Salmon	119,778–18–11
Bacon and lard	405,542–11–11
Oil seeds	543,311–19– 8
Miscellaneous	63,940– 3 –8

ARMS AND AMMUNITION

Cartridges, unfinished and completed, projectiles, rifles, machine guns, guns, trench mortars, etc.	20,504,243– 7 –0
Steel	440,805– 2 –8
Aluminum	187,950–14– 9
Tin	631,605– 5 –9
Tin plate	1,164,190– 1–10
Copper	377,268–19–10
Cast iron	511,941–14– 0
Miscellaneous	448,458–16– 4

EXPLOSIVES

Acetone	178,349– 4 –2
Nitrocellulose	2,575,079– 5– 6
Picric acid	1,828,934–19 –2
Benzol	270,091–16– 6
Toluol	224,865–14– 8
Cordite	634,158–16– 4
Trinitrotoluol	2,036,035–11– 5
Phenol	199,110–12– 5
Nitrates	2,213,237–10 –3
Ammonia perchlorate	200,344– 0 –0
Caustic soda	108,456– 2– 4
Miscellaneous	38,644–16– 2

SUNDRY MATERIALS

	In pounds
Sundry materials of equipment and ammunitions for the Italian troops fighting on the various fronts	7,856,650–19– 1
Gas masks	3,550,081– 7– 4
Tractors and spares	491,351– 0 –3
Automobile equipment	126,560– 8 –5
Airplane fabrics	364,818– 7 –2
Sundries for aviation	283,499– 6–11
Barbed wire	218,165–15– 3
Jute and trench bags	659,400–13– 7
Quebracho	126,062– 2 –7
Ammonia sulphate, tans and fertilizers	200,000– 0 –0
Miscellaneous	1,388,822–11– 1

CLOTHING AND EQUIPMENT

Cardigans	1,141,324–19– 4
Field blankets	2,084,679– 9 –3
Raw wool	8,895,207– 9– 8
Jute	425,000– 0– 0
Hides	1,095,260– 7– 4
Army boots	3,822,717– 4– 2
Miscellaneous	140,600–19– 5

CHEMICAL PRODUCTS, MEDICINE, AND SURGICAL INSTRUMENTS

Cotton wool	352,392–12– 1
Quinine	389,040– 0– 0
Miscellaneous drugs	844,495–17– 8
Miscellaneous	43,758–12– 1

FUEL AND LUBRICATING OILS

Coal	37,511,167–15– 5
Petrol	571,444– 0–11
Heavy oil	102,028–14– 3
Vegetable oils	48,594– 8– 1

FREIGHT AND INSURANCE CHARGES AND FUEL

For transportation of foodstuffs, coal and other materials by English and neutral steamers	164,781,424–14–10

V. THE FUNDING OF THE FOREIGN DEBT

By the time the war ended, it would appear, according to documents published in 1921,[8] that the British government was

[8] *Senate Document 86, 67th Congress, 2d Session*, pp. 16 and following.

most desirous of having arrangements reached whereby the aggregate of British loans to Italy should not exceed that of the loans made by the United States. In fact, writing under date of December 4, 1918, the Assistant Secretary of the Treasury cabled to Washington from London that he had been informed by the Chancellor of the Exchequer that any further action on the part of the British government would have to be determined by Italy's arrangements with the United States.

After the war, desultory negotiations were inaugurated from time to time with a view to bring about the substitution of obligations having definite maturities and interest-paying provisions for demand notes or certificates held by the United States Treasury. Questions came up, as, for example, whether interest should be deemed to accrue upon unpaid interest, but nothing definite was settled in this connection;[9] and the funding or other disposition of the debt remained in a state of suspense until the negotiations of 1925 began.

The feeling during the year or two following the Armistice seems to have generally prevailed in Italy, as elsewhere, that

[9] There appears to have been some not wholly defined assumption on the part of the United States Treasury officials in 1917 that interest would be compounded; later, suggestions of the deferment of all interest payments brought forth decided negatives from Washington. But the whole problem of interest remained in a nebulous state down to the end of 1921. See *Senate Document 86* and various *Hearings* cited in note 5, p. 376, for correspondence and testimony on these points, on proposals discussed at Washington in April and May, 1920, for identical procedure on the part of the treasuries of England and the United States towards their continental debtors (*Hearings . . . on S. 2135*, pp. 110 ff.), and rather interestingly, in view of the positive declarations of the Treasury in recent years regarding the linking of German Reparation payments with the liquidation of the debts, the Treasury's letter of April 22, 1919, to the representative of the Italian Treasury (*Senate Document 86*, p. 351) declaring that certain advances "will be made only upon the understanding . . . that all United States advances to Italy made after March 1, 1919," (with certain other advances, and with certain exceptions) "shall be repaid by your government from the first receipts accruing to Italy in respect of compensation or indemnity from the enemy" . . . along with repayments to England, and subject to certain limitations.

the substantial yield of the reparation clauses of the Treaty of Versailles would enable Italy fully to liquidate her obligations to Great Britain and to the United States. It was recognized by the responsible officials of the United States government that as things stood just after the war Italy was in no position to carry the burden of liquidating her debts to Great Britain and the United States *unless her trade should very greatly expand.*[10]

A. Italian Public Opinion on the Debt Problem

It would take a great deal of space to trace the trend of Italian public sentiment toward Italy's two important foreign debts.[11] The disillusionment of the Italian public after the great depression of 1920–1921 and the evaporation of any prospect of German deliveries led to the development of some bitterness mingled with cynicism, particularly in newspaper discussions. Nevertheless, the matter remained more or less on the fringe of things through the years 1921–1923, inasmuch as Italy was largely absorbed in her own internal reorganization. Moreover, there was always the possibility that, in the process of constant readjustment of Germany's obligations under the Treaty, some happy formula might be hit upon whereby Italy's receipts

[10] Assistant Secretary of the Treasury N. H. Davis (subsequently Under-Secretary of State) writing to the Treasury in December, 1918, (*Senate Document 86*, p. 17), declared: "It is apparent, therefore, that Italy will have to improve considerably its pre-war trade in order to obtain sterling and dollars with which to pay interest on their debts. I think, therefore, that we will have to carry their interest for them for probably two or three years in addition to granting certain credits during the next few months for the purchase of raw materials with which to start their export trade."

[11] The official material is to be found chiefly in the addresses of the Ministers of Finance to the National legislative chambers. For numerous citations from the press, reference may be made to the *Economic Review*, London, *passim*, especially March 6, 1925, p. 206; *Politica*, Rome, January–February, 1925, p. 211; *Vita Italiana*, Rome, August–September, 1925, p. 65. Representative expressions of current non-official opinion are to be found in such volumes as those of L. Gangemi, *La politica economica e finanziaria del governo fascista*, Bologna, 1924, and E. Capuano, *L'Italia nuova*, Naples, 1925.

from Germany could be dedicated to the satisfaction of her London and Washington creditors. In 1924, however, according as the problem of getting the debts out of the way began to press more urgently for solution, the relative restraint that had characterized discussion in responsible circles other than those of journalism began to give way to rather sharp comment. For example, the long-buried but still unpaid debt of the British Crown to the Florentine banking houses of Bardi and Peruzzi, came in for a good deal of discussion on the part of important people like the former cabinet officer and distinguished economist, Luigi Luzzatti.[12]

Another distinguished economist, Professor Flora of Bologna, writing in the early summer of 1925,[13] declared categorically that Italy's negotiators must begin by asking a complete moratorium for ten years, without interest, in order that Italy's currency might be restored, and her trade balance rendered more favorable. The next point on which the negotiators should insist, as Professor Flora thought, was that the debts be reduced by the amount, so far as ascertainable, of the taxes which the lenders had collected on the purchases made from the loans. Thus, since the United States Treasury had collected not less than

[12] During various years culminating in 1339, these bankers loaned to Edward III of England large sums, only an insignificant fraction of which was ever repaid. It was calculated by J. J. Berckum, (*Staatschuldenproblem im Lichte der klassischen Nationalökonomie*, Leipzig, 1911) that the amount loaned would have a purchasing power, in 1911, of about 60 million francs. The exhaustive research of Armando Sapori in contemporary records, British and Italian, points to an unpaid balance of over 800,000 gold florins, which would have a still larger modern equivalent. Sapori's study was published at Florence in 1926 under the title *La crisi delle compagnie mercantili dei Bardi e dei Peruzzi*. No payment worth mentioning was ever made on account of either principal or interest, the latter having now compounded into veritably astronomical figures. Towards the last quarter of the nineteenth century, one of the Peruzzi family fruitlessly endeavored to have the Italian government press his claim against the British crown.

[13] *Corriere Mercantile, Supplemento* (Genoa) July 1 and 2, 1925, reproduced in *Revue financière et économique d'Italie*, May–June, 1925.

550 millions of dollars in excess profits taxes on Italian disbursements in the United States from the loans made by the Treasury of the latter country, the sum to be repaid by Italy should be correspondingly reduced. But if grave difficulties should present themselves in the way of the successful conclusion of an agreement of this sort, Professor Flora felt that the Italian negotiators should stand out for the suppression of all interest or the selection of a very low rate, and the arrangement of low annual instalments at the outset. Finally, the principle of the Experts' Reparation plan should be applied, to the effect that cash payments should not be exacted if their transfer might jeopardize the stability of Italy's currency.

A most elaborate analysis along the same line, with many expressions that foreshadowed the Italian proposals at Washington, was presented by Senator Vittorio Rolandi Ricci, formerly ambassador to the United States, in an address to the Italian Senate on March 26, 1925.[14] After reciting the antecedents of the problem with great amplitude, Senator Ricci reached the conclusion that the principle of general average ought to apply to the sharing of the costs of the Great War, but he felt that in view of the difficulty of developing an acceptable method for the allocation of financial loss, the simplest course would be substantially to cut down the interest charge on Italy's debt to the United States, collecting no interest prior to 1935, with sinking fund payments beginning in 1950 and extinguishing the capital sum in 1999. So far as the Italian debt to Great Britain was concerned, Senator Ricci pointed out that Italy and England had to get along together politically in the Mediterranean and on the continent, but that Italy's economic resources had to be taken into account. It was not so much a question of how generous Great Britain would be as it was of how near her debtor's capacity that generosity would come. "As Martial once put it: 'He alone has debts who can pay.'" The outcome of all the negotiations must vitally affect the life of Italy for a half century at least.

[14] *Discorso . . . sui bilanci della finanza e dell'entrata*, Rome, 1925.

The well-known economic writer, Professor Riccardo Bachi, writing in an important German review early in the summer of 1925,[15] declared that the dominant element in public opinion, occasionally finding expression on the part of political leaders, tended to view the gigantic debts of Great Britain and the United States as bereft of all juridical foundation and not properly to be regarded as actual debts. According to this view of the problem, these transactions had the form of debts only because certain accounting requirements made it convenient to reduce to monetary form the co-operation of the various governments. In point of fact, the activities of the Allied Governments were common efforts on both the military and economic fronts. Italy's contribution, of course, was chiefly military because of her location and the obvious necessity of breaking the resistance of Germany's principal Ally. Professor Bachi records all the arguments made to the effect that it would be absurd to hold Italy accountable for freight charges on ammunition intended to be discharged against the common enemy, particularly when profitable employment and even profitable fiscal relations were best in the countries owning the shipping and manufacturing the ammunition, to the industrial expansion of which the war gave rise. After reciting the history of the negotiations and calling attention to complaints that Italian industry had not assisted the taxpayers in the creditor countries, Professor Bachi enters upon a discussion of the burden of taxation in Italy as compared with other countries.

Bachi also discusses a plan proposed by a Genoese financier, Ginella, to deal with the Italian debts on the same basis as the German indemnities were handled in the Experts' Reparation plan. According to Ginella, the present value of the 132 billion gold marks due from Germany, assuming that the Dawes Plan would operate 25 years and capitalizing the annuities at the rate of 6 per cent, would be 40 billion gold lire. Assuming a proportionate reduction in Italy's debt to the United States

[15] *Wirtschaftsdienst*, Hamburg, July 3, 1925, p. 1013 and following.

little more than 125 million gold lire would be required to be paid by Italy over and above her receipts from Germany according to the formal agreement as to the distribution of the latter. After discussing the economic consequences of any such arrangement upon the life of the Italian nation, and taking into account the even greater obligations of Italy to Great Britain, Professor Bachi reaches the following conclusions:

> The payment of the annual instalments to be required from Italy can take place only through an increase of Italy's exports of goods and services. The creditor countries, in order to receive payment, must make it possible for Italy to transfer that payment. If the present hostility towards immigration from Italy continues and if tariff barriers are steadfastly maintained against the importation of goods from Italy, then the payment of the debts simply becomes impossible. The adjustment of this extraordinarily weighty problem must proceed on the side of the creditor countries from the basis of a liberal policy which will enable Italy to accept the obligations imposed upon her without apprehension of economic collapse. It is indispensable that the negotiations of the specific agreements to be reached in the matter take place in this spirit. The promise, so often repeated to take into account Italy's capacity to pay in making the agreement, must first of all be realized through making possible such a capacity on Italy's part to make payment, which, however, can be accomplished only if a liberal economic policy is carried out with due regard for Italy's situation.

The attitude of aggrieved and defensive disillusionment which had come to characterize the popular point of view in Italy is perhaps best expressed in the following sentence, concluding a long discussion of the subject:[16]

> If it was in the interest of Europe and of the entire world that the economic fortunes of conquered Germany should be restored, let us bear in mind that it is at least none the less of interest to all concerned that a financial disaster on our part be prevented.

[16] In the *Corriere Mercantile, Supplemento*, February 25, 1925.

B. Official Views on the Foreign Debt

Turning now to the public record of official policy, we observe that official utterances on the subject of Italy's foreign debt have not been numerous. Each year since the end of the war, the Minister of Finance has made some passing reference to the matter; but the references have been nothing more than passing. At the outset these references linked indemnity receipts and interest payments in confident fashion. "If Italy," said Signor Schanzer, as Minister of Finance, December 16, 1919, "had to pay annually a billion and some hundreds of millions in gold for interest and capital on foreign loans without some counterpart, the balancing of our budget would be impossible. . . . But we have an offset. The indemnities which will be justly claimed by Italy will surpass her foreign debt by a large amount. Italy will, no doubt, keep her engagements towards the States that assisted her financially during the war; but we have to trust that those states will take into consideration the difficult financial situation of our country."

Filippo Meda, the distinguished advocate of tax reforms, declared as Minister of Finance in December, 1920: "It is appropriate to expect that our foreign debt will be studied so as to bring about a solution that will take due account of the nature and origin of the indebtedness. Much of the borrowing was employed in paying for goods received from industries of the lending countries, goods, the prices of which left large margins of profit to those selling the goods."

Speaking in the Chamber of Deputies on July 26, 1921, Minister De Nava confined his observations to these sentences: "In drawing up this financial program for the next few years, no account is taken of our foreign public debt arising from the war. The settlement of this matter affects such complex and delicate international questions as to surpass the limits of the brief review I have endeavored to present. *In any case*, it could not be embodied in a survey of a situation which, to be practical, must necessarily be limited to a space of only four

or five years." The same cabinet officer found the situation rather less approachable still when he spoke in December, 1921. "I shall not dwell on our foreign indebtedness, for the solution of this most delicate problem, which must first ripen in the consciousness of peoples and develop a public opinion, . . . has nothing to gain by unseasonable discussion and declaration. I shall only repeat what I said in July, that there is no place for the solution of this problem in a report which is limited, as to time, to the next three or four years."

The next head of the Treasury, Camillo Peano, speaking in July, 1922, reflected the growing apprehension that the situation was working out unfavorably. "This question (Italy's small share in German Reparation payments) is closely connected with another serious problem. . . . I allude to our foreign debt — Italy's policy cannot be otherwise founded than on that of the Allied and Associated Powers towards the defeated enemy. It seems illogical, in fact, that we should be asked — among the victors though we were, and although we bore for the common cause a burden gigantic and beyond our resources — to pay more than was asked of those who began the war."

The advent of the Fascist Administration led to so many changes in internal policies that a definite formal pronouncement on the policy to be pursued regarding the foreign indebtedness was delayed many months. At length, the Minister of Finance, Alberto de' Stefani, speaking at Milan on May 13, 1923, made the following declaration:

> The adjustment of Italy's international debts will constitute, when it takes place, a new coefficient of stabilization in the country's international economic relations. . . . The Italian Government succeeded, at the London Conference, in linking the problem of Germany's idemnity with that of the interallied debts. The two problems appear constantly to be more interdependent. It is evident that Italy could not lighten Germany's burdens except in proportion as her own burdens are lightened by her creditors. Italy is awaiting a general European arrangement as a preliminary to the arrangement of her debt to England. As for the

United States, Italy declares definitely that she intends to meet her obligations, and she asks only that the powerful Republic grant to her extensive concessions, proportional to those granted to Great Britain, because of Italy's great difference from other countries in economic resources and in the heavy sacrifice involved in our contribution to the common victory.

Thus the transition from the insistence upon a linking of indemnity payments and loan repayments to a basis of compromise by negotiation may be said to be discernible early in the Fascist régime. The failure of the British proposals at the Paris conference early in January, 1923, to dissuade the French government from the reparation policy it was then pursuing resulted in the side-tracking for a time the entire debt problem.

The summer of 1923, however, saw the resumption of negotiations between the principal Allied powers and the United States that were calculated to bring the indemnity and debt problems into practical if not formal relationship again. The consent of France to the creation of an expert commission to review the entire Reparation problem was doubtless won in large measure through more or less definite engagements, necessarily interrupted by the death of President Harding, as to the negotiations subsequently to follow in the matter of the debts. Certainly, the realistic and alert administration at Rome gathered, and was permitted to gather, that its acquiescence in the transformation of the Reparation Commission into a new mechanism would pave the way for reasonable treatment in the matter of the debts.

Nevertheless, when once the new Reparation plan was under way, after the London agreement of August 16, 1924, the solution of the debt problem did not move at all rapidly, for either France or Italy. Even though there was no longer any attempt to link German payments to Italian payments — except as an argument regarding economic capacity — there were a great many uncertain factors. Until the election of 1924 had passed, the United States government did not wish to stir the question prematurely; and then internal political confusion in France

delayed action throughout the balance of the winter. Italy was waiting for France to move first, just as all the continental countries had been waiting, in 1920–1922, for Great Britain to move first. The expectation that France would receive quite favorable terms, upon which as a point of departure for a still better arrangement Italy might build, naturally enough lay back of this policy.

But many other considerations were bound up in the minds of the Italian government with what might transpire with regard to France's debts. For one thing, there was an intimate, almost baffling connection between the debts and the currency problem.

C. The Negotiation of an Agreement with the United States

The fall and winter of 1924–25 witnessed a speeding up of the government's effort to recover a fair measure of credit abroad on the basis of a balanced budget and stabilized lira. It was evident that the budget would be restored to balance by the end of the fiscal year 1924–25. But it also became clear that the lira could not be stabilized so long as, on the one hand, the large volume of foreign indebtedness of the Italian banks and industries remained unfunded and undiminished and, on the other, so long as the government could find no practicable measure wherewith to secure a new supply of gold as the basis for establishing a convertible currency. The government struggled unsuccessfully to restrain speculation in the lira or to check the growing fever of speculation in securities of all sorts, in commodities, and even in land.

The measures to which the government was obliged to resort in the spring of 1925 brought about a series of sharp reactions, the repercussion of which upon the foreign value of the lira was exceedingly disconcerting. It began to look as if, by the end of 1925, the currency was destined to give way unless some support should be secured. Accordingly, in June, a credit of fifty million dollars was secured at New York for the three banks of issue. It was a short-term credit, of the variety known as the revolving credit, for twelve months, capable of being drawn

upon at any time up to the limit stipulated. A charge of about one per cent was provided for whatever portion of it might be in use. Although the government technically did not figure in this transaction, it was, of course, substantially upon the credit of the government that the loan was issued.

The New York credit foreshadows a settlement of the Italian debt to the United States government. Upon this subject, no less than upon currency policy, there appears to have been a prolonged and earnest discussion within the Italian government itself throughout the spring and early summer of 1925. The Minister of Finance who had been responsible for the restoration of budgetary equilibrium appears to have accepted the interpretation of Italy's domestic and foreign credit situation put forward by the great banks and the industrial interests; and it appears to have been with great reluctance that he authorized any measures whatever looking to the opening of foreign money markets for Italian industry by means of a stabilization of the currency based upon borrowing, this borrowing in turn made possible through the funding of the government's foreign debt.

Formal negotiations were opened towards the end of June, 1925, at Washington. The Italian Ambassador and a Commissioner who came from Italy especially for this purpose, discussed the whole subject with the United States World War Foreign Debt Commission in a preliminary way. It was agreed that the Italian government should furnish a detailed statement of the economic position of Italy and the financial situation of the government. After a lapse of several months, this material was dispatched from Rome in the form of voluminous memoranda. On November 1, 1925, a mission, comprising the Minister of Finance and four other commissioners accompanied by two experts and a numerous staff, arrived in Washington.

Negotiations between the two commissions lasted from November 2 to 12, inclusive. At the outset, of course, discussion turned upon the Italian government's general economic situation. The formula which was said to have been accepted by the government of the United States ever since the preparation

of the 1924 Reparation Plan for the payment of German indemnities, namely, payment "according to capacity," was reaffirmed by the responsible representatives of the United States. The exposition of Italy's capacity to produce and to make foreign payments set forth by the Italian commission was apparently accepted as substantially accurate. This major question of policy having been disposed of, the negotiators proceeded to work out some scheme whereby the debt could be paid without too obviously endangering the stability of Italy's currency. The Italian proposals were mostly on the basis of a longer period of payment than had previously been considered by the Debt Funding Commission in any of its negotiations; indeed, the principal Italian proposal contemplated a period of seventy-seven years for the liquidation of the entire capital sum, no payments of any sort to be made in the first few years. At length, however, the principle was accepted that payment should begin at once, that the entire operation should be completed within sixty-two years, and that the interest rate should be extremely low at the outset. A formal schedule in line with these conditions, was proposed by the United States commissioners on November 11 and accepted by the Italian representatives the following day. Its provisions, briefly summarized in Chapter IX, are set forth in the text of the agreement signed November 14, 1925, which follows this Appendix.

Simultaneously with the signature of the agreement of November 14, 1925, the first payment was made on behalf of the Italian government, namely, the sum of five million dollars in settlement of the instalment for the year beginning June 16, 1925.[17]

D. New Government Borrowing Abroad

Negotiations with the government of the United States having been completed, those with the bankers in New York were resumed and likewise brought to a decisive stage by the Italian

[17] The check delivered by the Italian Minister of Finance was for $5,199,000, the sum of $199,000 being the cash payment necessary to bring the new principal to the round figure of $2,042 millions.

government. The Minister of Finance proceeded to New York and there promptly reached agreement with a banking syndicate relating to the issue of a loan for one hundred million dollars. The terms of this transaction had been discussed by representatives of the banking syndicate in Italy earlier in 1925, and by Italian representatives in New York at the beginning of the summer. It apparently had been indicated in unmistakable fashion that if agreement could be reached concerning the funding of the debt to the government of the United States, the syndicate would undertake to furnish all the credit necessary to carry through the gold and other currency operations contemplated by the Italian government.

The loan issued on November 30, 1925, provided ninety million dollars[18] for the Italian government, the obligation being assumed by the latter to pay back a principal of one hundred million dollars at 7 per cent, sold to the public at 94½. The loan bears the date of December 1, 1925, and will mature December 1, 1951. It provides for a sinking fund the operation of which was stated to begin September 15, 1926, at the rate of $1,500,000 per annum, the redemption of the bonds, otherwise than for the purpose of the sinking fund, will not be possible until June 1, 1941, after which date the Italian government

[18] See in *Congressional Record*, January 15, 1926, p. 1768, a letter from the banking firm of J. P. Morgan and Company of New York, a part of which reads as follows:

> The facts of the matter are as follows: The Italian Government bonds were offered to the public at 94½ per cent of par. They were sold by the Italian Government to the original purchasing group at 90 per cent of par. The difference, 4½ per cent, represents therefore the total cost to the Italian Government for all commissions, expenses, etc. Out of the 4½ per cent mentioned our firm received as compensation for its work in negotiating the loan, forming and managing the syndicate, etc., slightly less than one-fourth of 1 per cent. The firm was a member of the purchase and selling syndicates and shared with other members of the syndicates in exact proportion to the responsibility undertaken in the compensation which flowed to such syndicate groups. The selling syndicate consisted of nearly a thousand banks and bond houses located all over the United States.

has the right to redeem them as a whole at par. The issue was stated at the time to have been oversubscribed; but this, of course, was with reference to the allocation of the issue among the security retailers, and not with reference to ultimate investors. When the syndicate was dissolved at the beginning of May, 1926, the price of the bonds fell several points, subsequently recovering slightly. A formal pledge was given by the Italian government to devote the proceeds of the loan to no other purpose than that of stabilizing the currency.

E. The Negotiation of an Agreement with Great Britain

On November 16, 1925, it was stated by the Chancellor of the Exchequer in the House of Commons that an invitation had been extended to Italy to initiate negotiations looking to the settlement of the Italian debt to Great Britain. Formal discussion began on January 14 at London, between an Italian mission presided over by the Minister of Finance and the Chancellor of the Exchequer for the British Government. On January 27, 1926, agreement was reached, the full text of which follows this Appendix.

There was much comment at the time the agreement was reached with regard to the substantial reduction made by Great Britain in the capital sum. Starting out with a nominal capital of nearly £611 millions, a reduction of considerably more than 50 per cent was made. By means of judicious manipulations of hypothetical discount rates, one might arrive at still more sweeping estimates. Indeed, the London *Times* editorially characterized the transaction as the "cancellation of approximately six-sevenths of the Italian war debt to this country."[19] Another publication saw fit to discuss the Italian payments in terms of a comparison with the burden of the British national debt, stating that what Italy would pay would represent the net interest — that is the gross interest less tax — on only about £110 millions of British securities.[20] In neither case, it ought

[19] London *Times*, January 28, 1926, p. 15.
[20] *Economist* (London), January 30, 1926, p. 196.

to be said in passing, was any intention manifest to characterize the Italian payments as exiguous in comparison with Italian resources. Indeed the *Economist* rather inclined to compliment the British negotiator on having secured somewhat more than the publication itself had previously regarded as possible.

F. Comparison of the Two Settlements

It was natural that comparisons should be made from the very start of the agreements concluded by the Italian Minister of Finance with Great Britain and the United States. Two notes not altogether in harmony run through the official expressions and the comment in unofficial journals ordinarily reflecting opinion in banking and commercial circles. On the one hand, it has been pointed out that Great Britain has written off the larger part of her nominal claim in perfect consonance with her so frequently repeated desire to treat the entire war debt problem as a thing of the past;[21] on the other hand, emphasis was laid upon the fact that the initial payments of Italy to Great Britain would greatly exceed her initial payments to the United States.

British official opinion is fully expressed in the following extracts from the speeches of former Chancellor of the Exchequer, Philip Snowden, and Winston Churchill, his successor, in a parliamentary debate on March 24, 1926.[22]

> Mr. Snowden: . . . By permitting these countries, France and Italy, not to pay their debts, by imposing upon the British taxpayer the annual sums which these countries ought to pay, what we are doing, in effect, is to subsidise, out of the pockets of the British taxpayers, the severe competition of France and Italy against British goods. We are now, as I have said, paying to America £34,000,000 a year, and that will rise to £38,000,000 a year. May I again translate that into terms of Income Tax, because the Income Tax is a matter of such touching interest to the Party opposite? The amount that the right hon. Gentleman

[21] Compare London *Times*, January 8, 1926, p. 13; many like expressions are to be found in the columns of the *Times*, *Chronicle*, and other British publications from 1923 to 1925.

[22] See *Parliamentary Debates*, Commons, Vol. 193, col. 1232 ff.

has to find for the payment of the American Debt represents 9d. in the £ upon the Income Tax, and will do for the next 60 years. Now, America is a friendly country, and I do not want to say anything which could be regarded as either disrespectful or disagreeable to that great country, but I want to put the facts. America entered the War two and one-half years after the outbreak of war, and, during that time, she had been very busily and very profitably engaged in making war material for the Allies. The work on Inter-Allied Debts to which I have referred, published by the Bankers' Trust of New York, makes these two statements:

> American bankers, merchants and manufacturers, and transport interests, profited to the extent of over three billion dollars from French disbursements in the United States alone.

It goes on to say that during that time the Allied countries spent in the United States of America £2,400,000,000 upon war munitions. After two and a half years America decided to enter the War. She did so, judging by all the statements that were made by President Wilson and other American Statesmen, in a great altruistic mood. In recommending the Congress to declare War, President Wilson said:

> "We have no selfish aims to serve. We desire no conquest, no Dominion. We seek no indemnities for ourselves, no material compensation for the sacrifices we shall freely make.

It was in that kind of altruistic mood that the United States entered the War. It was recognized that for some time she would not be able to do much by supplying men for the fighting front. She declared that the best service she could render to the Allied cause would be to act as the Allies' banker. In the official Bulletin issued by the American Treasury in connection with the raising of the war loans there, it was stated that the loans were essential to American intervention, not alone in a military way, but "for our economic protection and welfare." If it were necessary for the protection and the welfare of the United States of America to enter the War in 1917, it was equally necessary for her to do so in 1914. But for two and a-half years she had remained outside. She had profited greatly, she had vastly enriched her purse, and by delaying her entry into the War she had saved two and a-half

years' loss of life of American soldiers. These are things which ought to be taken into consideration. It was generally agreed, and indeed stated—quotations in support of it could be furnished—at the time that this loan was given to our Continental Allies through us, that it was a gift by the United States of America as a sort of compensation for her late arrival upon the scene of battle. However, the bond is theirs, and, if the United States insists upon it, then we must pay. That burden of £38,000,000 a year will require to be shouldered by the people of this country for nearly 60 years more. America has been much more successful than we have in regard to the funding of her foreign indebtedness. She has already funded 40 per cent of that indebtedness.

I come now to the Italian debt, which amounts to about £600,000,000. At 5 per cent, and assuming that the money we lent to Italy was raised in this country—I will make a distinction by and by between one-half of the total debt and the other half, because the funding of our debt to America at a slightly lower rate of interest makes some difference—it means that the taxpayers of this country are paying £30,000,000 a year upon the Italian debt. If that were funded on the terms that America has exacted from us, that is about 4 per cent with interest and sinking fund, it would amount to £23,000,000 a year, and in 62 years Italy would pay £1,500,000,000. Somebody will have to pay that, and, if Italy does not pay, then the taxpayers of this country will have to pay. The right hon. Gentleman has concluded an agreement with the Italian Government. There is no provision in that agreement for the payment of a single penny of interest. Italy is to pay, upon the average for the next 62 years, £4,000,000 a year. That means that altogether she will pay about £250,000,000. The cost of that to us, as I pointed out a moment ago, funded upon the terms of the American debt, is £1,500,000,000. The difference between these two figures is the burden which for the next 62 years will rest upon the shoulders of the taxpayers of this country. That means that of the Italian debt Italy's payments will be about one-sixth, and the British tax-payers' five-sixths. . . . We are getting about £10,000,000 from Germany. Under the Dawes scheme, if it matures, we may some time get £20,000,000. But that is very doubtful indeed. Four million pounds from Italy, £12,000,000 from France, £10,000,000 from

Germany—that is £26,000,000, so that when the £38,000,000 on the American debt matures, we shall, on these terms, be about £12,000,000 a year to the bad.

I want to ask the Chancellor of the Exchequer a question, and I hope, when he replies, he will give me an answer. He supplemented the Balfour Note by a Note which he sent to France, in which he said that there must be *pari passu* payments made by France or any of our continental debtors; in other words, if they made terms more favourable with one of their other debtors, we should expect to revise our agreement with them, so that we should get a proportionate benefit. I wonder if the right hon. Gentleman still stands by that condition, because I find no embodiment of it in the Italian Agreement.

Mr. Churchill: . . . I do not find myself in fundamental disagreement on any matter of serious principle with the right hon. Gentleman in many of the arguments he has used. I think, with him, that this question of debts ought to be treated, not in isolated discussion on this or that particular country, but surveyed as a whole. The right hon. Gentleman went back into the past, and I will follow him there.

There has been from the very beginning of these controversies a very marked difference of view in Great Britain and the United States in regard to War debts. We have never taken the view that the cost of shot and shell fired in the common cause can be considered morally and sentimentally, whatever it may be legally, as on exactly the same footing as ordinary commercial debts. That has always been our position. It was the British position more than 100 years ago, after the Battle of Waterloo, and it is certainly the standpoint from which we first approached this subject. We said we were willing to cancel all debts owing to this country by our Allies, provided we were treated in a similar manner by those who were our creditors. That view did not commend itself to the great Republic across the Atlantic and, as the right hon. Gentleman has very truly said, we received more than one insistent demand to fund our contracted debt. This being so, we were, of course, bound to comply. Whatever views may be entertained on sentiment or on policy, the right of the creditor is indisputable. There can be no question of the lawful right of the creditor, or that the United States are entirely within

their full legal rights in taking the view they do of contractual obligations entered into with themselves. We were forced, therefore, to adopt a position different from that which our own instincts and historical traditions had naturally suggested.

We then come to the Balfour Note. . . .

I was always a sincere believer in the principles of the Balfour Note, and I was very glad to be able, in the first speech I made to this Parliament in my present office, to re-affirm it in the most explicit manner. What are the principles of the Balfour Note? . . .

The principle was that we should not take or ask, not only in debts but in reparations, more than was paid by us to our creditors across the Atlantic. That was our principle. We adhere to that principle and, as far as possible, we are endeavoring to give effect to it. We have, in carrying out that policy, to take into consideration the capacity of the individual debtors to pay, and also what is fair and right towards individual debtors who make genuine and spontaneous efforts to redeem their obligations. . . . We have undertaken to pay what the United States so insistently and incessantly demanded. That involves upon us a charge of £33,000,000 at the present time, rising in, I think, seven years to £38,000,000. That is to say, putting it broadly, we have to pay, the British Chancellor of the Exchequer and his successors in a long line have to pay, about £100,000 a day every day for more than three generations to the United States.

That is a stupendous operation. To transfer, to pass that immense sum continuously across a frontier, across an ocean, across the Exchange, is one of the most stupendous tasks and burdens ever undertaken by any country in the whole financial history of the world. That is one side of the picture. Now I turn to the Balfour Note and to what has been our attitude towards our Continental debtors. I do not wish to impart any heat or any controversy of a disagreeable character into the discussion, but here I must say that in this task of obtaining the best possible terms from our Continental debtors we have been compromised and hampered by the attitude of both the two great Opposition parties in this House. In the first place, we have the declaration of the Leader of the Liberal party, Lord Oxford, in 1921. All these statements are read abroad. Every word that

is said in these Debates on these topics is studiously read abroad, and, if it is of a nature favorable to the claims of a foreign country, it is not forgotten. It forms a definite part thereafter of their controversial and argumentative case. . . .

What did Lord Oxford, then Mr. Asquith, say on 26th October, 1921?

> "The first thing is to get rid as between the Allies in the last War of their indebtedness one to the other. Wipe it off the slate. It will be none the worse in the long run."

In August, 1922, he said:

> "If I were Budgeting in the future, I would write them off."

He was referring to the debts of our Continental Allies.

> "They are not good debts, not from any want of honor or good faith on the part of those who incurred them . . . they are not in a position to redeem their obligation. To remit, in my opinion, is not an act of magnanimity in the least. It is an act of good business." — [Official Report, 3rd August, 1922; col. 1752, Vol. 157.]

In the same speech he spoke of the United States not having

> "any obligation, moral or even sentimental." — [Official Report, 3rd August, 1922; col. 1753, Vol. 157.]

to induce them to remit their debt or any part of it to us. That is a very hard doctrine. It is idle to suppose that a declaration of that kind, made by an ex-Prime Minister, an ex-Chancellor of the Exchequer, a man of European and world-wide reputation, the undisputed leader of one of the great parties in the State, can be made without playing its part in subsequent events and international discussion. . . .

Now I come to Italy and to the Italian debt settlement. . . .

The Italian capacity to pay has been considered by our experts to be about one-third of that of France. That is the broad calculation which we have made. The right hon. Gentleman quoted some Italian professor with whose name I am not familiar. He described how this professor said he really thought that, if we looked at matters truly, we should find that England owed a debt to Italy, and that Italy owed nothing to England. That is not the view of the Italian people or of the Italian Government. They have an entirely different view. They have accepted the view which we take, that their capacity to pay is one-third of

that of France, and they have agreed to pay us £4,000,000 a year for 62 years, and they have agreed to pay that, not contingent on the reparations which they may receive from Germany, but on the sole credit of Italy itself. That is a point to which we attach a great deal of importance. No political consideration of any kind entered into the fixing of this sum, except that general political consideration to which I have referred, namely, the long friendship between Great Britain and Italy, unbroken at any time in the history of the two countries. That and our comradeship in the War—both these considerations were certainly borne in mind by myself and by my colleagues in the Cabinet. But no political bargaining, interest or engagement of any sort or kind was entered into at any time or at any point during these negotiations and discussions. [Here follows the observation reproduced in the text, page 204.] . . .

There is only one more remark which I wish to make, and that is on the general future of these debts. It is a very remarkable fact that at the present moment the amount that the United States is receiving from Europe under arrangements which have already been made is approximately equal to the whole amount of reparations which Germany is paying. But the distribution of the receipts from Germany and the payments to the United States is entirely different. The bulk of the receipts from Germany go to France, who at present is making no payments on account of her War debts, and the bulk of payments to the United States are made by this country largely out of our own resources. But the day is coming at no great distance when this situation will undergo an obvious modification. When France as well as Italy has funded her debts, both to this country and to the United States, and when the minor Powers have all funded their debts, then it is quite clear that the United States will be receiving, directly and indirectly, on her own account from reparations, from Italian sources, balanced against reparations, from British sources, from French sources through British hands, from Italian sources through British hands — by all these various channels, indirectly or directly, America will be receiving by far the larger part, at least 60 per cent., of the total probable reparations of Germany, and the first reparations, the first 60 per cent, as it were, which will be payable by Germany. That is the last

thing I have to say on this subject. It seems to me an extraordinary situation that will be developed — that by all these chains and lines and channels, the pressure of debt extraction will draw reparations through the different channels from the devastated and war-stricken countries of Europe, which will flow in an unbroken stream across the Atlantic to that wealthy and prosperous and great Republic. I believe that these facts will not pass out of the minds of any responsible persons, either in the United States or in Europe.

There has been much emphasis on the fact that the British settlement calls for heavier payments at the beginning than does the agreement with the United States. A typical British comment upon the fact that the payments to the United States in the later years of the Agreement of November 14, 1925, are comparatively heavy is the remark of the *Economist* of January 30, 1926, p. 196, to the effect that the "annuities payable in America 50 or 60 years hence are paper figures, which are not taken very seriously on either side of the Atlantic." If one is more impressed, therefore, by this second *motif*, then, he is inclined to regard the British bargain as distinctly the more practical from the creditor's point of view. Certainly it will represent the greater burden upon the debtor country during the second quarter of the twentieth century; and if there is anything in the theory that future progress and prosperity will greatly reduce the significance of these international debts, then, it will have come to pass that the British Agreement signified a much greater effort for Italy in the days of her real economic struggle and tribulation than did the Agreement with the United States.

G. Reparation Receipts in Relation to Debt Payments

From the Italian point of view, the reduction in the nominal capital of the debt to Great Britain appears to possess an advantage which might be described as of a strategic character. The present value of the total amount to be paid by Italy under the two agreements is calculated by the official actuaries at some-

thing in the neighborhood of 4,250 million gold lire (about $850 millions); the present value of the share of Italy in German reparation payments is fixed at about 4,300 million gold lire (about $860 millions).[23] Taking a higher discount rate, say, 6 per cent or more, one reaches a present value for the total payments sufficiently lower to make it possible for Italy theoretically to meet her obligations even though the full amount provided in the Reparation Plan of 1924 is not received from Germany. The importance to be attached to this adjustment of contractual liabilities and hypothetical resources will be comprehended in view of the persistent efforts on the part of Italian officials of all shades of political doctrine to link Germany's indemnities with the program of liquidation of Italy's foreign public debts. The Minister of Finance is reported to have stated on his return from London to Rome, that Italy's liabilities are entirely covered by reparation payments scheduled to be received from Germany. In the event that the latter should fall short of present calculations, Italy would probably not have the decisive rôle to play in the subsequent rearrangements of European obligations; Italy's intention to fulfil her obligations, it was implied in his remarks, would be as firm as her expectation that others should fulfil their obligations.

H. The Future Burden of the Funded Foreign Debt

Official calculations have been made of the gold value of the payments during the initial years, and published soon after the signature of the London Agreement.[24] During the years 1926–

[23] Not everybody of financial prestige in Italy, however, was prepared to take the official figures of the Italian Treasury without amendment. The Chairman of the Special Committee of the Italian Senate appointed to examine the debt settlements in submitting his report to the Senate on February 8, 1926, expressed some doubt as to the likelihood of reparation payments quite equaling the total payments to Great Britain and the United States. See London *Times*, February 9, 1926, p. 13.

[24] In the *Corriere Mercantile* of Genoa, for February 4, 1926, for example; and Professor Flora's article, referred to in the text in this connection, appeared in the same journal for February 7.

1934, the payments, according to these calculations, would be in millions of gold lire, as follows:

	United States	Great Britain	Total
1926–27	25.9	50.4	76.3
1927–28	25.9	100.8	126.7
1928–29	25.9	100.8	126.7
1929–30	25.9	107.1	133.0
1930–31	25.9	107.1	133.0
1931–32	62.0	107.1	169.1
1932–33	62.0	107.1	169.1
1933–34	63.7	113.5	177.2

The aggregate payment would be regarded as steadily representing a larger and larger percentage of Italy's total foreign payments (on the international income and outgo account, of course).[25] The distinguished authority on public finance, Federico Flora, commenting on these totals, points out that they represent manageable amounts in the early years, in any case, provided only the lira can be held firm, and the currency steadily and skillfully contracted. The first year's payment, for example, amounts to 381.5 million paper lire. In future years, however, if the lira were not to have improved, the burden would be exceedingly grave; within eight years, for example, if the lira continued to be worth no more than a fifth of its nominal gold value, the payments would call for little less than 900 million paper lire.[26]

[25] See pp. 238, 249 and 327. From 2 to 5 per cent of the aggregate outgo if future years registered income and outgo accounts roughly similar to those of 1925, would be involved, according to the *Corriere* dispatch.

[26] Professor Flora writes: During at least the first 15 years, . . . There is no certainty that our budget will be thrown out of balance or our unfavorable payments account be materially aggravated . . . the proceeds of the Dawes Plan for some years at least ought to be enough to cover the annuities on the debt. . . .

On the other hand, what is really important and even urgent is the gradual improvement of the lira which alone can reduce the burden on the taxpayers in connection with the payment of the annuities. Just now, the payments aggregate 380 millions, but in

Professor Mortara observes that while in the initial years the burden is not enormous, it will increase rapidly.[27] "Relying upon the punctuality of German payments, which ought to make possible our covering these obligations to our foreign creditors, we shall have to take care to build up constantly a large cash balance, either by means of the diminution of expenses, or by

the years 1927 and 1928 this will become 633.5 million lire paper provided that the lira remains at its present level; in the two years following it will become 665 millions each and in 1931, 845.5 million lire. In this latter year, it will be legally possible and we hope economically possible, in spite of the high rate of money, to convert our Consolidated Debt in large measure in such fashion as to provide substantial economies for the budget.

In order to avoid burdens of this sort for the nation which is already suffocated,—from taxes that nobody, when he recalls his modest income, can regard as normal,—it will be necessary before everything else to take steps to bring about the gradual retirement of the 7,000 million bank notes issued without adequate cover, on account of the State. These 7,000 million bank notes represent a much greater burden for all the citizens of Italy than the harshest and most inequitably distributed taxes.

Without this slow contraction of the paper circulation issued on account of the State (which will be possible if a large part of the budget surpluses are devoted to this purpose) it is not going to be a feasible thing to continue either saving or real economic prosperity in the country. Moreover, without this contraction of the currency, the execution of the arrangements regarding the war debts can not be continued, nor will the systematic regulation of our finances be possible. Yesterday I got a letter from an old pensioner in which he literally weeps over the high cost of bread. His complaint is just, but we must not forget that if today grain costs the people of Italy about 200 lire paper, per quintal, this is not only because of the insufficient crop of cereals at home but also because of the depreciation of the lira which is 79 per cent depreciated in terms of gold. The exchange stands at 4.75; the cost of foreign grains in our ports, including the grain customs duty, amounts to 42 lire gold, that is, to 200 lire paper, per quintal. Now, inasmuch as Italy must import this year 15 million quintals of grain from the United States, an additional expense of no less than 2,370 million lire is involved in the depression of the exchange alone. What tax upon necessities of living or what annuity on war debts can ever have attained such heights? What tax more unjust and more sterile, more calculated to create impoverishment than the discount attributable to the 21,000 million lire of paper today flooding the country?

[27] *Prospettive economiche*, 1926, p. 430.

means of the reduction of domestic debt, so that as the interest and amortization payments on the foreign debt increase, the interest on the internal debt will be lessening."

A special sinking fund was set up by the Italian Treasury to take care of the Foreign Public Debt. Into this fund are to be paid all receipts on account of Reparation deliveries under the Treaty of Versailles and its subordinate instruments: and from the fund all external debt payments will be made.

I. Quasi-Governmental Borrowing

In addition to the burden which the Italian government has to assume in connection with the two funding agreements and the public loan floated in the United States in November, 1925, there is a possibility — of a contingent character to be sure — that subordinate obligations will have to be faced by the Government in connection with the flotation of loans for public utility enterprises, municipalities and other public or guaranteed purposes. In February, 1925, a loan of $20 millions was arranged in the United States by the Credit Institute for Italian Public Utilities created by the Government in 1925 (*Istituto di Credito per le imprese di Pubblica Utilità*). This Institute operates under the supervision of the Minister of Finance and was intended to have special powers for the collection of the revenues of the companies on whose behalf it has borrowed the money, should difficulties arise in this connection. These companies are grouped in six large organizations and include the foremost electrical company of Piedmont, the Gas and Electric Corporation of Rome, and companies serving cities such as Milan, Florence, and other centers in northern Italy.

The effect of this and of other borrowing on account of the government, subordinate political entities, or guaranteed public service corporations, upon the capacity of Italy to transfer payments without endangering her currency would perhaps be a matter of academic interest rather than a practical conjecture were it not for the large volume of wholly private borrowing which was certain to be arranged as soon as the debt funding

agreement with the United States had been reached. Even before the agreement of November 14, 1925, there had been one large issue of bonds on the New York market on behalf of an Italian textile concern. The extent to which the transfer possibilities of Italy will be noticeably impaired by these operations can, of course, be predicted only after the first year or two of operation under the Washington Agreement of November 14, 1925, and the London Agreement of January 27, 1926.

It may be of interest to submit in conclusion, a table of Italy's entire public debt, as it stood at the end of the fiscal year of 1925–26, expressed in terms of paper lire. The estimate for the debt to Great Britain and the United States debt is that of its "present value" at the end of the winter, on the basis of a rate of 4.5 per cent, the rate which Professor Mortara used in making his calculations in the 1926 edition of *Prospettive economiche*. The figures for the internal issues were taken from the *Gazzetta ufficiale* of July 20, 1926, and represent the state of the debts as of June 30, 1926, that is, prior to the great consolidation mentioned on p. 371, and currency reforms.

THE PUBLIC DEBT OF ITALY, JUNE 30, 1926

	(*Million lire*)
Internal debt	
Perpetual and long-term bonds	
Pre-war issues	12,443
National loans (1915–1920)	35,997
Venetian, 3.50	1,075
Twenty-five-year bonds, 4.75	1,420
Ex-Austrian 4.36	10
Total	50,945
Short-term bonds	
Treasury 3-and 5-year bonds	1,672
Treasury 7-year bonds	4,000
Treasury 9-year bonds	6,836
Total	12,508
Treasury notes	
3, 6, 9, 12 months bills	17,832
Accounts current	
Deposits and loans state bank	1,128
Social insurance national fund	67
Total accounts current	1,195
Total internal debt	82,480

External debt	
Present value of the funded debt to Great Britain and the United States, on the basis of 4.5 per cent	20,300
Dollar loan of 1925	2,500
Total external debt	22,800
Aggregate internal and external, approximately	105,300
Non-interest bearing debt:	
Currency notes of the treasury	2,100
Bank notes issued on government account	6,729

The equivalent in gold lire of the aggregate domestic and foreign debt (exclusive of currency issues), that is, of 105,300 million paper lire, might be regarded as equivalent, in the late spring of 1926, to about 21 billions.

The assimilation of the foreign and domestic debt is unsatisfactory, no matter how attempted, and widely differing results have been reached by various authorities. It ought, therefore, be pointed out that the foregoing table while about the best for general purposes does not represent the largest estimate of Italy's total public indebtedness. Writing in the London *Times Trade and Engineering Supplement* of June 19, 1926, p. 26, the Director General of the Bank of Italy states the total foreign debt as equal to 17,700 million gold lire on December 31, 1925, reduced one month later (after the British debt settlement), to 9,363 million gold lire. This would give a total of practically 45 billion paper lire, in contrast to the 22.8 billions shown in the foregoing table. Speaking at the University of Camerino on May 27, 1926, the Minister of Finance stated that the present value of the debts as funded was equal to about 18 billion lire.[28] Thus during the summer of 1926, at least, it was not yet clear how the government would definitively express the amount of the capital sum of the public debt, domestic and foreign, to be prepared and officially published in the future.

[28] "Debiti internazionali. . . . Le sistemazioni conchiuse dall'-Italia," *Rassegna Italiana*, June, 1926.

SUPPLEMENTARY NOTE

Any treatment of Italian internal debt problems would be incomplete without some reference to pensions and to the rehabilitation of territory damaged in the war. A substantial portion of the internal bond issues was due to these two causes.

1. War Damage

The subject of the material losses to Italy resulting directly from the war itself has naturally received a great deal of attention. Official papers and discussions as well as other material have been drawn upon by Professors Rodolfo Benini and Lanfranco Maroi, in the memorandum prepared under official auspices entitled *I danni di guerra alla proprietá fondiaria*, Rome, 1925. A summary of this report, but not the discussion itself, was available to the author. Reference may also be made to several discussions of the subject in articles gathered in Professor Gini's *Problemi sociologici della guerra*, 1921. It appears that a provisional estimate of the damage suffered by Italy was prepared in 1920 in response to an invitation to furnish a report on the subject for the eventual use of the Reparation Commission. This estimate, however, is now regarded as thoroughly defective in character by the Italian government itself, because of the haste with which it was prepared. A better basis for the estimation of the damage suffered in northeastern Italy because of the invasion of Italian territory during the war is to be found in the results of the operation of the legislation providing for indemnification and assistance to persons actually sustaining damage. The fundamental law is that of March 27, 1919, one of the provisions of which establishes, as an arbitrary limit, 50,000 lire for the repair, or 100,000 lire for the reconstruction of, castles and other large habitations, while movable goods and property of a character other than essential to personal use was to be indemnified when the loss was clearly demonstrated to have actually exceeded 2,000 lire but not 10,000, to the extent of one-half the proved value, with proportionate reductions of the percentage of indemnification for larger losses. The Treasury retained the discretion to make payments when awarded by the responsible commissions at such time as would best fit in with the resources at its disposal.

Inasmuch as the Italian government was never very sanguine about collecting much from the Central Powers or of collecting anything in the near future, it took great pains to reduce the burden to the greatest possible extent. The claims for compensation were received from the invaded area to the number of about 1,060,000, the monetary aggregate of the claims being about 5,880 million lire (of pre-war value). These claims which ceased to be received after December 31, 1923, were classified in seven categories and subjected to the most careful scrutiny. Many were rejected because of failure to demonstrate the extent of the damage and others were reduced. In the end the total was cut down by 34.7 per cent (a some-

what larger reduction than appears to have been the case in France). Various coefficients were then applied in order to bring the pre-war valuations definitively fixed into accord with the value of the lira at the time of the war. The following table gives the categories, the original aggregates of claims, the percentages of reduction and the coefficients for transformation to post-war values.

Categories of Property	Damage Declared at Pre-War Cost Value Million lire	Percentage of Reduction on Claims	Adjusted Total of Damage at Pre-War Values Million lire	Coefficient for Transformation into Post-War Values	Probable Total Sum of Indemnification Million lire
Land	812.2	55	446.8	3.25	1,452.1
Household furniture	1,451.2	60	870.7	3.33	2,899.5
Agricultural industries	1,350.9	65	878.1	4.75	4,171.0
Industrial and commercial plants	1,104.6	70	773.2	5.00	3,666.0
Industrial buildings	94.8	75	71.1	5.33	379.0
Rural buildings	476.2	75	357.2	5.33	1,903.9
Urban buildings	588.7	75	441.5	5.33	2,353.2
Unclassified property	1.5	65	1.0	4.38	4.4
Total	5,880.2	65	3,839.6	4.38	16,829.1

In addition to the damage incurred by private individuals, the municipalities and provincial authorities as well as other public corporations, — such as charitable foundations and the like, — reported 2,039.5 million lire (1923 values) of loss for the public buildings and the like. Even this figure was cut down materially, and the amount finally fixed for indemnification of local and other public corporations was 1,835.3 millions. The following table shows both private and public loss as thus determined by the official commissions of investigations.

Categories of Property	Actual Damage Sustained (In millions of lire at 1923–1925 value)		
	By public Corporations	By private Individuals	Total
Land, pastures, woods	485	1,452	1,937
Rural buildings	88	1,904	1,992
Urban, industrial and other buildings	504	2,734	3,238
Movable property	252	10,739	10,991
Roads, bridges, embankments, locks, canals	506	....	506
Total	1,835	16,829	18,664

In addition, damage to merchant shipping together with cargoes and related losses, direct and indirect, amounted to £128,460,000 sterling. This was dealt with separately; see *Official Records of the Reparation Commission.*

2. Pensions

The total Italian military dead and disabled numbered about 1,140,000 (in the middle of 1925). This included some 22,000 of Italian race who had died in the military service of the Austro-Hungarian Empire, and about 11,000 Italians disabled in that service. Pensions were assignable to the widows and children of deceased soldiers, to their widowed mothers, to fathers over fifty years of age, or incapacitated, to brothers and sisters of minors, or incapacitated; and in cases where several sons were lost in the war,

Total Expenditure on War Pensions and Allowances Paid in Italy from the Fiscal Year 1915–16 to the Fiscal Year 1924–25

Pensions Granted to Invalids (in numbers)	Pensions Granted to the Parents of the Dead (in numbers)	Total	Millions of Lire	
445,200	643,656	1,088,856	Pensions and allowances granted in favor of invalids and families of the dead who fought with the Italian army and navy	7,881
3,100	1,310	4,410	Pensions and allowances granted in favor of the civil population who suffered damages during the war	20
10,007	20,566	30,573	Pensions and allowances granted in favor of invalids and families of the soldiers killed in the Austrian Army . .	199
458,307	665,532	1,123,839	Total	8,101

multiple pensions were assignable. About 1,250,000 applications for pensions were filed; more than 217,000 were rejected; about 867,000 were being paid at the end of the fiscal year 1924–25, about 4,000 applications are disposed of monthly, and some 3,500 new ones filed each month, on the average. The average pension, per annum, for an invalid soldier is about 2,218 lire, for a widow or orphan about 1,755 lire, and for a parent or other relative, 812 lire; the general average being 1,483 lire. The table on p. 411 shows the expenditure since Italy entered the war.

In addition to the regular pensions, Italy instituted an insurance system during the war. It provided for a simple policy of from 500 to 1,500 lire payable to beneficiaries when death should be due to military service, directly or indirectly, and for a mixed policy of from 1,000 to 5,000 lire, generally payable to beneficiaries at death from whatever cause, or to the insured himself after 30 years. Up to August 1, 1925 some 2,802,000 policies had been issued, and by the end of that year the average number of applications being disposed of each month had risen to 27,000. It was thought probable that the aggregate number of policies written would exceed 3,150,000, with a nominal capital value of 3,241 million lire and a present value of about 1,300 millions.

Finally, the accumulation of debt because of the war received yet another increment under the ample heading of relief to service men and their families. For example, some 360,000 orphan children of fallen soldiers are being sustained and educated by an organization built up under the supervision of the Ministry of the Interior. The following table shows the amount officially reported to have been spent under these headings from the beginning of the war down to June 30, 1925.

	In millions of lire
1. Help and subsidies to the needy families of service men	4,799
2. Assistance, in general, to discharged soldiers	1,420
3. Convalescence allowances paid to men waiting for the settlement of their war pensions	800
4. Assistance to tuberculous soldiers	165
5. Assistance to the malaria patients (ex-soldiers)	12
6. War orphans	125
7. National Association ex-service men	268
8. Assistance to needy ex-service men	15
9. National association for the assistance of war invalids	120
10. Compensation paid to workers employed by the military authorities	28
Total	7,752

It will be borne in mind, of course, in this case as in the recapitulation of pension payments above, that lire of quite contrasting value and purchasing power are all thrown together in any such

summary of expenditures over the war decade. Attempts to convert these totals into foreign currencies or gold lire would be futile. The immensity of the totals, however, and magnitude of the machinery involved in handling this problem, serve at least to suggest what inroads the war made upon the potential resources in human capital of the Italian people.

Texts of Agreements Between Italy and the United States and Great Britain, Together with Forms of Bonds, and President Coolidge's Letter to Congress.

MESSAGE

FROM

THE PRESIDENT OF THE UNITED STATES

To the Congress of the United States:

I am submitting herewith for the consideration of the Congress a copy of an agreement, dated November 14, 1925, executed by the Secretary of the Treasury as chairman of the World War Foreign Debt Commission, providing for the settlement of the indebtedness of the Kingdom of Italy to the United States of America. The agreement was approved by me on November 14, 1925 subject to the approval of Congress, pursuant to authority conferred by act approved February 9, 1922, as amended by act approved February 28, 1923, and as further amended by act approved January 21, 1925.

I believe that the settlement upon the terms set forth in the agreement is fair and just to both Governments and recommend its approval.

Calvin Coolidge.

The White House,
December 8, 1925.

AGREEMENT,

Made the fourteenth day of November, 1925, at the City of Washington, District of Columbia, between the KINGDOM OF ITALY, hereinafter called ITALY, party of the first part, and the UNITED STATES OF AMERICA, hereinafter called the UNITED STATES, party of the second part.

Whereas Italy is indebted to the United States as of June 15, 1925, upon obligations in the aggregate principal amount of

$1,647,869,197.96, together with interest accrued and unpaid thereon; and

Whereas, Italy desires to fund said indebtedness to the United States, both principal and interest, through the issue of bonds to the United States, and the United States is prepared to accept bonds from Italy upon the terms hereinafter set forth;

Now, therefore, in consideration of the premises and of the mutual covenants herein contained, it is agreed as follows:

1. *Amount of Indebtedness.* — The amount of indebtedness to be funded, after allowing for certain cash payments made or to be made by Italy is $2,042,000,000, which has been computed as follows:

Obligations taken for cash advanced by Treasury	$1,648,034,050.90	
Accrued and unpaid interest at 4¼% per annum to December 15, 1922	251,846,654.79	
		$1,899,880,705.69
Accrued interest at 3% per annum from December 15, 1922, to June 15, 1925		142,491,052.93
		$2,042,371,758.62
Deduct payments made on account of principal since December 15, 1922	$164,852.94	
Interest on principal payments at 3% per annum to June 15, 1925	7,439.34	
		$172,292.28
Total net indebtedness as of June 15, 1925		$2,042,199,466.34
To be paid in cash upon execution of agreement		199,466.34
Total indebtedness to be funded into bonds		$2,042,000,000.00

2. *Payment.* — In order to provide for the payment of the indebtedness thus to be funded Italy will issue to the United States at par bonds of Italy in the aggregate principal amount of $2,042,000,000, dated June 15, 1925, and maturing serially

on the several dates and in the amounts fixed in the following schedule:

June 15—		June 15—	
1926	$5,000,000	1958	$29,600,000
1927	5,000,000	1959	30,500,000
1928	5,000,000	1960	31,500,000
1929	5,000,000	1961	32,500,000
1930	5,000,000	1962	33,500,000
1931	12,100,000	1963	34,500,000
1932	12,200,000	1964	35,500,000
1933	12,300,000	1965	36,500,000
1934	12,600,000	1966	38,000,000
1935	13,000,000	1967	39,500,000
1936	13,500,000	1968	41,500,000
1937	14,200,000	1969	43,500,000
1938	14,600,000	1970	44,500,000
1939	15,200,000	1971	46,000,000
1940	15,800,000	1972	47,500,000
1941	16,400,000	1973	49,000,000
1942	17,000,000	1974	50,500,000
1943	17,600,000	1975	52,000,000
1944	18,300,000	1976	54,000,000
1945	19,000,000	1977	56,000,000
1946	19,600,000	1978	59,000,000
1947	20,000,000	1979	61,000,000
1948	20,600,000	1980	62,000,000
1949	21,200,000	1981	64,000,000
1950	22,000,000	1982	67,000,000
1951	23,000,000	1983	69,000,000
1952	23,800,000	1984	72,000,000
1953	24,600,000	1985	74,000,000
1954	25,400,000	1986	77,000,000
1955	26,500,000	1987	79,400,000
1956	27,500,000		
1957	28,500,000	Total	$2,042,000,000

Provided, However, That Italy, at its option, upon not less than ninety days' advance notice to the United States, may postpone any payment on account of principal falling due as hereinabove provided, after June 15, 1930, to any subsequent June 15 or December 15 not more than two years distant from its due date, but only on condition that in case Italy shall at any time exercise this option as to any payment of principal, the payment falling due in the second succeeding year cannot be postponed at all unless and until the payments of principal due two years and one year previous thereto shall actually have been made. All such postponed payments of principal shall bear interest at the rate of 4¼% per annum payable semiannually.

3. *Form of Bond.* — All bonds issued or to be issued hereunder to the United States shall be payable to the Government of the United States of America, or order, and shall be signed for Italy by its Ambassador at Washington, or by its other duly authorized representative. The bonds shall be substantially in the form set forth in the exhibit hereto annexed and marked "Exhibit A," and shall be issued in 62 pieces with maturities and in denominations as hereinabove set forth and shall bear no interest until June 15, 1930, and thereafter shall bear interest at the rate of ⅛ of 1% per annum from June 15, 1930, to June 15, 1940; at the rate of ¼ of 1% per annum from June 15, 1940, to June 15, 1950; at the rate of ½ of 1% per annum from June 15, 1950, to June 15, 1960; at the rate of ¾ of 1% per annum from June 15, 1960, to June 15, 1970; at the rate of 1% per annum from June 15, 1970, to June 15, 1980, and at the rate of 2% per annum after June 15, 1980, all payable semiannually on June 15 and December 15 of each year.

4. *Method of Payment.* — All bonds issued or to be issued hereunder shall be payable, as to both principal and interest, in United States gold coin of the present standard of value, or, at the option of Italy, upon not less than thirty days' advance notice to the United States, in any obligations of the United States issued after April 6, 1917, to be taken at par and accrued interest to the date of payment hereunder.

All payments, whether in cash or in obligations of the United States, to be made by Italy on account of the principal of or interest on any bonds issued or to be issued hereunder and held by the United States, shall be made at the Treasury of the United States in Washington, or, at the option of the Secretary of the Treasury of the United States, at the Federal Reserve Bank of New York, and if in cash shall be made in funds immediately available on the date of payment, or if in obligations of the United States shall be in form acceptable to the Secretary of the Treasury of the United States under the general regulations of the Treasury Department governing transactions in United States obligations.

5. *Exemption from Taxation.* — The principal and interest of all bonds issued or to be issued hereunder shall be paid without deduction for, and shall be exempt from, any and all taxes or other public dues, present or future, imposed by or under authority of Italy or any political or local taxing authority within Italy, whenever, so long as, and to the extent that beneficial ownership is in (a) the Government of the United States, (b) a person, firm, or association neither domiciled nor ordinarily

resident in Italy, or (c) a corporation not organized under the laws of Italy.

6. *Payments before Maturity.* — Italy, at its option, on June 15 or December 15 of any year, upon not less than ninety days' advance notice to the United States, may make advance payments in amounts of $1,000 or multiples thereof, on account of the principal of any bonds issued or to be issued hereunder and held by the United States. Any such advance payments shall be applied to the principal of such bonds as may be indicated by Italy at the time of the payment.

7. *Exchange for Marketable Obligations.* — Italy will issue to the United States at any time, or from time to time, at the request of the Secretary of the Treasury of the United States, in exchange for any or all of the bonds issued hereunder and held by the United States, definitive engraved bonds in form suitable for sale to the public, in such amounts and denominations as the Secretary of the Treasury of the United States may request, in bearer form, with provision for registration as to principal, and/or in fully registered form, and otherwise on the same terms and conditions, as to dates of issue and maturity, rate or rates of interest, if any, exemption from taxation, payment in obligations of the United States issued after April 6, 1917, and the like, as the bonds surrendered on such exchange. Italy will deliver definitive engraved bonds to the United States in accordance herewith within six months of receiving notice of any such request from the Secretary of the Treasury of the United States, and pending the delivery of the definitive engraved bonds will deliver, at the request of the Secretary of the Treasury of the United States, temporary bonds or interim receipts in form satisfactory to the Secretary of the Treasury of the United States within thirty days of the receipt of such request, all without expense to the United States. The United States, before offering any such bonds or interim receipts for sale in Italy, will first offer them to Italy for purchase at par and accrued interest, if any, and Italy shall likewise have the option, in lieu of issuing any such bonds or interim receipts, to make advance redemption, at par and accrued interest, if any, of a corresponding principal amount of bonds issued hereunder and held by the United States. Italy agrees that the definitive engraved bonds called for by this paragraph shall contain all such provisions, and that it will cause to be promulgated all such rules, regulations, and orders as shall be deemed necessary or desirable by the Secretary of the Treasury of the United States in order to facilitate the sale of the bonds in the United States,

in Italy or elsewhere, and that if requested by the Secretary of the Treasury of the United States, it will use its good offices to secure the listing of the bonds on such stock exchanges as the Secretary of the Treasury of the United States may specify.

8. *Cancellation and Surrender of Obligations.* — Upon the execution of this Agreement, the delivery to the United States of the principal amount of bonds of Italy to be issued hereunder, together with satisfactory evidence of authority for the execution of this Agreement by the representative of Italy and for the execution of the bonds to be issued hereunder, the United States will cancel and surrender to Italy at the Treasury of the United States in Washington, the obligations of Italy held by the United States.

9. *Notices.* — Any notice, request, or consent under the hand of the Secretary of the Treasury of the United States, shall be deemed and taken as the notice, request, or consent of the United States, and shall be sufficient if delivered at the Embassy of Italy at Washington or at the office of the Ministry of Finance at Rome; and any notice, request, or election from or by Italy shall be sufficient if delivered to the American Embassy at Rome or to the Secretary of the Treasury at the Treasury of the United States in Washington. The United States in its discretion may waive any notice required hereunder, but any such waiver shall be in writing and shall not extend to or affect any subsequent notice or impair any right of the United States to require notice hereunder.

10. *Compliance with Legal Requirements.* — Italy represents and agrees that the execution and delivery of this Agreement have in all respects been duly authorized and that all acts, conditions, and legal formalities which should have been completed prior to the making of this Agreement have been completed as required by the laws of Italy and in conformity therewith.

11. *Counterparts.* — This Agreement shall be executed in two counterparts, each of which shall have the force and effect of an original.

In witness whereof Italy has caused this Agreement to be executed on its behalf by Giuseppe Volpi di Misurata, its Plenipotentiary at Washington, thereunto duly authorized, subject, however, to ratification in Italy, and the United States has likewise caused this Agreement to be executed on its behalf by the Secretary of the Treasury, as Chairman of the World War Foreign Debt Commission, with the approval of the President, subject, however, to the approval of Congress, pursuant to the Act

of Congress approved February 9, 1922, as amended by the Act of Congress approved February 28, 1923, and as further amended by the Act of Congress approved January 21, 1925, all on the day and year first above written.

THE KINGDOM OF ITALY,
By GIUSEPPE VOLPI DI MISURATA,
THE UNITED STATES OF AMERICA,
For the World War Foreign Debt Commission:
By A. W. MELLON,
Secretary of the Treasury and Chairman of the Commission.

Approved:

CALVIN COOLIDGE,
President.

EXHIBIT A

(Form of Bond)

THE KINGDOM OF ITALY

$ No.

The Kingdom of Italy, hereinafter called Italy, for value received, promises to pay to the Government of the United States of America, hereinafter called the United States, or order, on June 15, 19 , the sum of Dollars ($), and to pay interest upon said principal sum after June 15, 1930, at the rate of ⅛ of 1% per annum from June 15, 1930, to June 15, 1940, at the rate of ¼ of 1% per annum from June 15, 1940, to June 15, 1950, at the rate of ½ of 1% per annum from June 15, 1950, to June 15, 1960, at the rate of ¾ of 1% per annum from June 15, 1960, to June 15, 1970, at the rate of 1% per annum from June 15, 1970, to June 15, 1980, and at the rate of 2% per annum after June 15, 1980, all payable semiannually on the 15th day of December and June in each year. This bond is payable as to both principal and interest in gold coin of the United States of America of the present standard of value, or, at the option of Italy, upon not less than thirty days' advance notice to the United States, in any obligations of the United States issued after April 6, 1917, to be taken at par and accrued interest to the date of payment hereunder.

This bond is payable as to both principal and interest without deduction for, and is exempt from, any and all taxes and other public dues, present or future imposed by or under authority of Italy or any political or local taxing authority within Italy whenever, so long as, and to the extent that beneficial ownership

is in (a) the Government of the United States, (b) a person, firm, or association neither domiciled nor ordinarily resident in Italy, or (c) a corporation not organized under the laws of Italy. This bond is payable as to both principal and interest at the Treasury of the United States in Washington, D. C., or at the option of the Secretary of the Treasury of the United States at the Federal Reserve Bank of New York.

This bond is issued pursuant to the provisions of paragraph 2 of an Agreement dated November 14, 1925, between Italy and the United States, to which Agreement this bond is subject and to which reference is hereby made.

In witness whereof, Italy has caused this bond to be executed in its behalf by its Ambassador Extraordinary and Plenipotentiary at Washington, thereunto duly authorized, as of June 15, 1925.

THE KINGDOM OF ITALY:
By

Ambassador Extraordinary and Plenipotentiary.

TEXT OF THE AGREEMENT BETWEEN GREAT BRITAIN AND ITALY FOR THE FUNDING OF THE ITALIAN DEBT TO GREAT BRITAIN *

Whereas Great Britain holds Italian Sterling Treasury Bills to the value of £610,840,000, representing the war debt of Italy to Great Britain,

And whereas Italy and Great Britain desire to arrive at a friendly settlement of this debt, within the capacity of Italy,

Now, therefore, the Rt. Hon. Winston Leonard Spencer Churchill, Chancellor of the Exchequer of Great Britain, and the Count Giuseppe Volpi di Misurata, Finance Minister of Italy, after having taken into account all relevant considerations, duly authorized thereunto by their respective Governments subject to such ratification as may be required, have agreed as follows:

1. Italy agrees to pay, and Great Britain to accept, in satisfaction of the aforesaid war debt the following annuities:

In respect of the current financial year . . .	£ 2,000,000
In respect of the next two financial years . .	4,000,000 a year
In respect of the next four financial years . .	4,250,000 a year
In respect of succeeding financial years until 1986–87	4,500,000 a year
In respect of the financial year 1987–88 . . .	2,250,000

* London *Times*, January 28, 1926, p. 14.

The above payments will be made in sterling at the Bank of England, London, on March 15, 1926, and thereafter in equal half-yearly instalments on September 15 and March 15 of each year, so that the last payment will be made on September 15, 1987.

2. Italy will issue and deliver to the British Treasury on or before February 20, 1926, a bond substantially in the form set out in the annex to this agreement in respect of each of the payments provided for in Article I of this Agreement.

3. The payments due under all bonds issued in accordance with this Agreement shall be made without deduction for, and shall be exempt from any and all taxes and other public dues, present or future, imposed by or under authority of Italy or any political or local taxing authority within Italy.

4. Italy, at its option, upon not less than 90 days' notice to Great Britain, may postpone such part of any of the half-yearly instalments falling due on or after September 15, 1928, as exceeds the sum of one million pounds (£1,000,000) to any subsequent March 15 or September 15, not more than two years distant from its due date, but only on condition that in case Italy shall at any time exercise this option as to the payment of any instalment, the instalments falling due in the second succeeding year cannot be postponed at all unless and until the instalments due two years and one year previous thereto shall actually have been paid in full. All such postponed payments shall bear interest at the rate of 5 per cent per annum, payable half-yearly.

5. The accounts relating to the war debt of Italy to Great Britain, including the accounts in connexion with the Wheat Executive and War Risks Insurance schemes, shall be finally closed, and the British Treasury shall be entitled to retain any sums credited or to be credited to Italy in respect of such accounts. Save as provided in this Agreement, the contracting parties and their agents reciprocally renounce all claims or counter-claims against the other contracting party or their agents in respect of the above-mentioned accounts or the services and supplies to which they relate.

Great Britain likewise renounces all claims outstanding against Italy in respect of the hire of ex-enemy shipping.

6. If at any time it appears that the aggregate payments effectively received by Great Britain under Allied War Debt Funding Agreements and on account of Reparations or of Liberation Bonds exceed the aggregate payments effectively made by Great Britain to the Government of the United States of

America in respect of war debts, an account shall be drawn up by the British Treasury, interest at 5 per cent being allowed on both sides of the account; and if that account shows that the receipts exceed the payments, Great Britain will credit Italy against the payments next due by Italy under Article I of this Agreement with such proportion of that excess as the payments effectively made by Italy under Article I of this Agreement bear to the aggregate sums effectively received by Great Britain under all Allied War Debt Funding Agreements. Thereafter, a similar account will be drawn up by the British Treasury each year, and any further excess of the receipts over the payments shall each year give rise to a credit to Italy of a proportion of such excess calculated in the manner indicated above. On the other hand, any deficit shall be made good by an increase in the payments next due by Italy up to a similar proportion of such deficit within the limit of the total amount of the credits already allowed to Italy under this Article.

For the purpose of this Article any capital sums which may hereafter be realized by Great Britain in respect of Reparations or of Liberation Bonds will be taken at their annual value, taking account of amortization.

7. The £22,200,000 of gold, belonging to Italy, which was deposited under the Agreements of 1915 against the Italian war debt, will be retained by Great Britain as a non-interest-bearing deposit and will be released to Italy as to the sum of £1,000,000, in eight equal instalments on September 15 and March 15 of each of the four years commencing September 15, 1928, and terminating March 15, 1932, and, as to the balance, in equal half-yearly instalments commencing September 15, 1932, and terminating September 15, 1987, provided always that all the annuities due under Article I of this Agreement have been integrally paid to date.

8. Upon the execution of this Agreement and the delivery to Great Britain of the bonds of Italy to be issued hereunder, duly executed, the British Treasury will cancel and surrender to Italy the Italian Treasury bills held by Great Britain.

Signed in duplicate at London on the twenty-seventh day of January, 1926.

For the Kingdom of Italy:

Giuseppe Volpi di Misurata,
Minister of Finance.

For the United Kingdom of Great Britain and Ireland:

Winston S. Churchill,
Chancellor of the Exchequer.

ANNEX

(Form of Bond)

Dated , 1926. Maturing

THE Government of the Kingdom of Italy for value received promises to pay to the Government of His Britannic Majesty, or order, on March 15, September 15, 19 , the sum of pounds sterling at the Bank of England, London.

The payment due under this bond shall be exempt from all Italian taxation, present or future.

This bond is issued by the Government of the Kingdom of Italy pursuant to the agreement of January 27, 1926, for the funding of the Italian War Debt to Great Britain.

APPENDIX D

TAXATION AND FISCAL POLICY

The taxation policy of Italy after unification confronted somewhat of an obstacle in the fact that there had been literally centuries of discussion and experience in application of taxation principles by the numerous sovereign governments of the peninsula. In other words the régime which came into existence after 1861 faced its foremost difficulty rather in the tedious nature of the task of constructing a consolidated and technically effective national system of taxation than in the absence of information or local experience.[1]

[1] There is an abundance of theoretical literature in the field of taxation as far back as the end of the eighteenth century. The Milanese assessors and economists who established the fiscal principles of modern land valuation before the middle of that century were already the subjects of learned treatises before its end. See the interesting historical introduction to Professor Einaudi's *La terra e l'imposta* in *Annali di economia*, I, Milan 1924, pp. 37–216. The remarkable attempt of Leopold of Tuscany (Grand Duke 1765–89, Emperor of Austria 1789–92) to reorganize the fiscal system of Tuscany was the object of a detailed study, in which extensive reference is made to Italian discussion, by A. F. W. Crome, *Staatsverwaltung von Toskana unter der Regierung Leopolds II*, 3 vols., Leipzig, 1795. The elder Pitt paid considerable attention to Leopold's work in this connection. So far as the ideas of particular Italian writers on taxation are concerned, reference may be made in general to G. Ricca-Salerno, *Storia delle dottrine finanziarie in Italia*, 2d ed., Palermo, 1896; to the histories of political economy in Italy of Alberto Errera, *Storia dell' economia politica nei secoli XVII e XVIII negli stati della reppubblica Veneta*, Venice, 1877; Camillo Supino, *La scienza economica in Italia*, Turin, 1888; and Luigi Cossa, *Histoire des doctrines économiques*, Paris, 1899, Chs. VII and XV. Valuable for the earlier theorists are the monographs of Graziani, *Idee economiche degli economisti emiliani e romagnoli*, Modena, 1893; von Schwarzkopf, *Beiträge zur Geschichte der nationalökonomischen Studien in Italien im 17ten und 18ten*

The system which prevailed in the half century following political unification consisted in the main of three groups of taxes: (*a*) direct taxes, (*b*) consumption taxes, and (*c*) taxes on inheritances, property transfers, and like business operations. In addition, of course, the Italian Treasury derived considerable income from public utility and monopoly franchises based upon contractual relations.

I. NATIONAL TAXATION BEFORE THE WAR

The direct taxes were originally three in number, a land tax, a tax on the rental value of buildings, and a tax on income from other sources than land.

The land tax was the oldest and most important part of the fiscal structure. There had been elaborate land taxation in all the former states of the peninsula. These had been based upon ancient systems of valuation (*catasti*) which in few cases had been brought up to date in the middle of the nineteenth century. The government made shift with a compromise type of land tax until, in 1882, a thorough exploration of the entire subject could be initiated. The land valuation law of 1886, the outcome of four years of discussion,[2] laid down a clear set of principles concerning land taxation and provided for a complete and homogeneous valuation of all the private realty in the kingdom. The great task of assessment begun under this law had not been completed even by the end of 1925, although it had been provisionally carried through for the majority of the provinces at a cost, over the generation since its initiation, of some hundred millions of lire.

For many years the normal starting point in calculating values had been, in accordance with the provisions of the law of 1886, averages obtaining in the years 1874 and 1875. One of the first decrees of the Fascist Administration, bearing the date of Janu-

Jahrhundert, Strassburg, 1872; and J. A. Müller, *Chronologische Darstellung der italienischen Klassiker über Nationalökonomie*, Budapest, 1820.

[2] Primarily identified both as to discussion and the legislation with the name of Messedaglia.

ary 7, 1923, shifted the basis of valuation from 1874–5 to January 1, 1914. So far as provinces for which the survey had not been completed were concerned, only the new date was to serve as a point of departure; so far as related to those provinces for which the survey had been completed according to values of 1874–5, it was stipulated that eventually the cadastral valuation would be adjusted to the basis of 1914

The tax on improved property was not very productive. It was a tax on rents or on income imputable to rentable property and, in 1914, stood at the nominal rate of 18.12 per cent. It operated under systems of valuation which differed widely from province to province but had two common characteristics, namely, inefficient operation and capacity for irritating the taxpayer. For the most part valuation methods tended to keep a full generation behind, even as recently as 1920. Perpetual controversy went on between fiscal officials and property owners of all descriptions — agricultural, industrial, and residential — as to the character and extent of improvements. The tax yielded little in comparison with the certain obstacle it interposed to the economic progress of the community as a whole.[3]

Taxation on income yielded comparatively little before the war. The third category of taxation, that upon other sources of income than what was derived from land or improved property, was established in 1864, and was Italy's first experiment in taxation on a national basis. As then set up, it constituted a simple per capita tax for a quite restricted number of kinds of income. Two years later it was transformed into a graduated income tax with a basic rate of 8 per cent. The rate was steadily raised until it became 20 per cent in 1894. By the time the European war began and in consequence of a considerable number of legislative and administrative modifications, the following five main schedules had come to exist: (*a*) income from public securities, 20 per cent; (*b*) income from other classes of securities,

[3] A full discussion of the tax and its underlying principles is to be found in Filippo Meda, *La riforma generale delle imposte dirette sui redditi*, Milan, 1920, Chapter II.

17.60 per cent; (*c*) income from commercial and industrial occupations, 11.73 per cent; (*d*) income from the practice of professions, 10.53 per cent; (*e*) salaries for services to the State, provinces, municipalities and communes, 8.62 per cent. In the cases of the last three classes of income, rates substantially lower were imposed on incomes below 1500, 1667 and 2000 lire, respectively.

Rates as high as those which prevailed under the Italian scheme of taxation on income before the war could produce comparatively little revenue. Particularly did it come to be true that this tax upon income from other sources than land and improved property operated unevenly and unsatisfactorily. It was based primarily upon initial declarations of the taxpayers and tended to be transformed into "a tax not on income but on expense," [4] since the government agents contented themselves with perfunctory estimates of the taxpayer's resources by gauging his outlay on the upkeep of his establishment. The potential severity of the tax did not prevent evasion. By the end of the pre-war period, Italian taxpayers were apparently as much given to extensive evasion as those of other countries collecting income taxes and apparently the Italian government either could not or would not employ methods of control elsewhere in vogue sufficient to overcome this special psychology of the declarant taxpayer.[5]

[4] An expression of René Stourm, commenting on European income taxes in general, in a session of the *Société de législation comparée*, quoted by Perdrieux, cited in the following note.

[5] There is an interesting literature on the subject of evasion of the Italian income taxes, which has been well summarized, together with the results of his own investigations, by P. Perdrieux, *Les fraudes dans l'impôt italien sur les revenus de la richesse mobilière*, Paris, 1910. His concluding sentences are worth reproducing. "The machinery (of the law) was ingeniously contrived to produce revenue *provided* that the taxpayer declared his income accurately . . . Universal good faith and whole-hearted devotion to the national interest were taken for granted. Based upon the declaration, the machinery has worked badly. The Treasury, in these circumstances, has followed the wise policy of taking the lesser evil: it has refrained from the full use of its rights, in all their rigor,—a policy which would have provoked national ill-feeling and would have aggravated

II. TAXATION IN WAR TIME AND AFTER

During the war new kinds of taxes were added and the rates provided by those already in force were rapidly increased. But their yield was quite incommensurate with the legislature's expectations, because of difficulties in collection. A country situated as Italy then was, with her wealth still largely in the form of agricultural and real property, where little progress had been made in the direction of attracting capital into industry, could not quickly adopt the flexible and multiform programs of emergency taxation on capital operations to which Great Britain, France, Germany and the United States were able to resort.[6]

The table on p. 348 of Appendix B gives some idea of the growth of tax revenues during the war. The multiplication of kinds of taxes is, of course, not shown in such a table. The ingenuity of the Italian fiscal authorities in finding new objects

the inequality of the law. With the adaptability and resourcefulness characteristic of the Italian race, the Treasury has been able 'to avoid the appearance of inquisition and to show the utmost respect for the taxpayer.' Little by little, the Treasury has given up the application of the law in all its integrity, and has allowed custom and the force of events to moderate the administration of the tax,—moderation contrary to the legislative intent, but wholesome; only because of it could the nation accustom itself to such a tax."

Several of the general tax reform proposals of the last quarter century were initiated precisely in consequence of discussions of tax evasion, alleged to be universal among worker and capitalist alike.

[6] There is no comprehensive guide to, much less critical analysis of, the literature relating to public finance in Italy during the war; and the discussions of fiscal policy have not been fully listed in any one place. A working bibliography may be formed in the appropriate volumes of Bachi's *Italia economica*. Some of the material collected there by Professor Bachi forms the basis of his report included as Volume II (Geneva, 1920) of the League of Nations inquiry on the application of the recommendations of the Brussels Financial Conference. Reference may also be made for those who do not read Italian, to the study of Professor Jèze, *Les finances de guerre de l'Italie*, Paris, 1916, and to Chapter IV of Ernest Lémonon, *L'Italie d'après-guerre, 1914–21*, Paris, 1922, where a readable and well proportioned survey of fiscal policies is presented.

or services to be taxed was not surpassed in any other country. One tax, to be sure, disappeared — the famous gold import duty on grain; but other consumption taxes were widely extended and increased in rates. Taxes were established on capital gains, on profits, on all sorts of business transactions, on theater and moving picture tickets, on directors' fees, on exemptions from military service.

The fiscal situation in Italy in 1919 was little short of chaotic, and drastic measures were proposed. The accounts were so far behind that estimates of receipts and expenditures, even though submitted within brief intervals of each other, differed by many hundred million lire. There was little prospect of an early restoration of budgetary equilibrium. Those in power appear to have had two fundamental principles. These were, first, the maintenance of the grain subsidy (in consequence of which bread was sold at an artificially cheap price) and other costly activities of the State; and secondly, the reform of taxation so as to relieve the masses as far as possible. There was the widest agitation for the transformation of the war taxes on profits and capital accounts into a permanent fiscal program; and as an alternative, the proposal was made that a capital levy be imposed. Discussion took place throughout 1919 in the national parliament ending in the enactment on November 24 of that year of the capital levy.[7] The provisions of this law are not without some interest.

[7] See Bachi, *Italia economica*, for years 1920 and 1921, especially chapters on *Politica finanziaria;* Professor Gini, "A Levy on Capital," in *Economic Journal*, 1920, pp. 287–307; Meda, F., *La riforma generale delle imposte dirette sui redditi*, Milan, 1920.

On the so-called Rignano plan for the graduation of inheritance taxes according to the number of times the given property has been transferred, see Eugenio Rignano's *Social Significance of the Inheritance Tax*, New York, 1924 (and Stamp's adaptation under a slightly different title, London, 1925). See also *Economist* (London), November 14, 1925, p. 805, Gerbino's references to Rignano's scheme in *Economic Journal*, June, 1925; A. Bernardino *Socialismo e finanza*, Palermo, 1921 (severely critical of Rignano); Professor Cannan in *Economic Journal*, June, 1926, p. 235; and H. C. Scott in *Journal of Royal Statistical Society*, March, 1926, p. 256. In any

It is, in fact, as Professor Gini has stated, "not really a levy on capital but an ordinary tax on wealth limited to a period of thirty years." It is assessed on the basis of ownership of property as of January 1, 1920, according to values then prevailing. It is not imposed on those whose total capital possessions do not exceed fifty thousand lire. The minimum rate is of 4½ per cent, the maximum 50 per cent, the latter imposed on property exceeding in gross value 100 million lire. The assessment was to be made by declaration within the first three months of the year 1920. The revenue officials, of course, were empowered to investigate declarations. The taxes spread over twenty years, according to the nature of the property taxed, owners of real estate being given a longer period in proportion to the amount of real property in their total holdings.

Inspired with the same notion that hidden wealth must be dragged out into the open was the provision in one of the tax laws of 1919, that all securities of whatever origin be registered. It is known, of course, that this measure was subsequently modified so as to permit the use of bearer securities provided an additional tax of 15 per cent be paid; and this modification remained in force until August, 1925, when Count Volpi abolished the 15 per cent tax in one of his first decrees after becoming Minister of Finance. Few measures of the Liberal-Socialist Coalition stirred up more protest than the compulsory register of securities, unless possibly it was their proposal of drastic increases in inheritance tax rates which were under consideration during the fiscal year 1921–22. These proposals, however, were never carried out in the form intended since the Coalition Government fell to pieces before the sudden rise of the Fascist party.

The Fascist régime at once made an unequivocal declaration of policy on the subject of taxation. Professor Alberto de' Stefani, the new Minister of Finance, lost no time in making clear his intention of putting into effect the principles of public financing

case, Rignano's theories contributed some impetus to Socialistic schemes of taxation in the post-war years.

of which he had been a well-known exponent.[8] Plans for administrative reorganization in the interest of economy constituted the first step in financial rehabilitation, together with the task of making the railroads self-supporting. But from the very beginning, the Minister of Finance gave his personal attention to taxation policy. As in other countries, it had been recognized that a greater revenue might be expected from rates substantially lower than those theretofore enforced, if only principles of assessment were brought more in line with realities (and, perhaps, with human psychology) and if, too, rigorous exactitude were to characterize methods of collection.

The staff of the Italian Treasury charged with revenue collection had had the same discouraging task imposed upon them that had complicated the treasury operations of the other great powers. There had been too rapid an increase in the number and variety of taxes to permit staffs of pre-war dimensions to keep pace with their work. Those who have had no extensive contact with law-making and law-enforcing processes are prone to overlook the fact that there are many steps to be taken before the legislative statute can be adjusted to the wide variety of exemptions, reservations, and other limitations upon its universal application; in short, before it can be digested for the more or less ready comprehension of the layman. Undermanned and underpaid administrative powers in Italy as elsewhere had thrust upon them in constantly increasing degree since the summer of 1914, the responsibility for the adaptation of general precepts into the manageable form of executive interpretation, commentary, regulation, and jurisprudence. The volume of this "secondary legislation" became so great early in the war that it absorbed much of the time and energy of fiscal officers which otherwise would have been devoted to the speeding up of collection machinery generally. But at the opening of the fiscal year 1922–23, an improvement in the operation of the

[8] He published an interesting work, in which many of his ideas on fiscal problems are embodied, in 1921 (at Padua), *La dinamica patrimoniale nell'odierna economia capitalistica.*

fiscal machinery began to make itself apparent. Little by little the collection of taxes began to catch up with assessments. Complaint about the volume of tax collections in arrears became more and more insistent as each new report on the state of the national finances came to an end.

Thoroughgoing fiscal reform began in 1922–23. In rapid succession there were issued decrees consolidating the Finance Ministry and Treasury, simplifying and reorganizing a number of departments,[9] and effecting numerous reforms in fiscal procedure. Then came decrees exempting from domestic taxation interest on all foreign capital invested in Italian enterprises within a certain limited period, and a number of substantive provisions relating to the application of the tax laws.[10] The most important was the decree [11] abolishing inheritance taxation altogether upon property passing within the family, that is to say, within the third degree of kinship. The reason advanced for this change from the heavy rates previously imposed was the desire to encourage the accumulation of capital so as to increase the economic resources of the country as a whole.

It is not to be thought that this vigorous financial policy escaped criticism. Every measure taken aroused sharp protest, now from Socialist writers, again from the leaders of the various Liberal groups, and occasionally on theoretical or technical grounds, from economists.[12] In the course of a short time, the

[9] In the first eighteen months of the Fascist administration ministries were reduced from fifteen to eleven in number, assistant secretaryships from seventeen to nine; personnel (civil and military) was cut by 32,000.

[10] Such as the speeding-up of the cadastral valuation of the entire kingdom, mentioned above, p. 425. There is a list of all these executive decrees (having full legislative effect) in the *Documenti sulla condizione finanziaria ed economica dell' Italia* (May 13, 1923); and in Gangemi, *La politica economica e finanziaria del governo fascista*, Bologna, 1924.

[11] August 20, 1923, retroactive to July 9, 1923.

[12] Some of them listed by Gangemi, p. 110. On the whole, the economists writing in Italy seem to have held the opinion that Fascist fiscal policy has been both sound and constructive. Professor Griziotti, *La politica finanziaria italiana*, Milan, 1926, par-

rapid improvement in the national budget, and the expenditure and revenue figures themselves came to be challenged by political opponents.[13]

III. NATIONAL TAXATION AT THE PRESENT TIME

Dealing first with the direct taxes, we find the land tax levied on all income from land calculated in gold lire. According to the rates which went into effect as of January 1, 1925,[14] the land tax will vary according to the amount of the rent, from 11.89 per cent to 19.15 per cent. This highest rate is imposed on all income in excess of 5,000 lire (gold). There is no minimum exemption from this tax; all income from land must pay. By virtue of the systematization on a national basis of the land valuation to which reference was made on p. 426, the old difficulty of uneven and inequitable assessments under this branch of taxation will tend to assume less importance.

The tax on the rentable value of all building construction, industrial or residential, is imposed under the same general tax decree just mentioned according to rates ranging from 21.01 per cent to 27.74 per cent, the latter being levied on income in excess of 1,000 lire. Here again assessment is on the gold lira basis and there are no exemptions.

The general income tax has come to occupy an important place in Italy's tax system. We are referring now to the tax on income from other sources than land or improved property. A literal translation of the Italian expression, *ricchezza mobile*, on which the tax is imposed, would be moveable wealth. There are five categories of income subject to this tax and for each of them a

ticularly adverts to the flexibility of that policy in suppressing obstructionist taxation; see also Marco Fanno, *Scienza delle finanze; le imposte dirette*, Padua, 1925.

[13] The most notable attack on the veracity of the government accounts is said to have been made by the Socialist leader Matteotti in a book which appeared after his death. It has not been examined by the author of this monograph. An article by Matteotti, bitterly critical of Fascist finance, but resting chiefly on categorical affirmations, appeared in the *Statist*, London, June 7, 1924, p. 1038.

[14] Decree No. 1613 of October 16, 1924.

particular schedule of rates applies. The five schedules are as follows:

A. Unearned income from capital
B. Income partly earned and partly unearned
C1. Variable earned income
C2. Fixed earned income
D. Earned income.

Category (B) refers chiefly to income from commerce, industry and finance; while the two categories (C1) and (C2) refer respectively to incomes from the provinces and to salaries or pensions. The last category deals exclusively with employes of the national, provincial, and local governments. The law which reorganized the taxation schedules contemplated a gradual reduction to an equitable and permanent basis of the rates of all these classes of income. Certain initial rates were imposed more or less in harmony with these formerly levied but distinctly larger in the first two cases. These rates were to be changed on January 1, 1927, and on January 1, 1929, the rates coming into effect on this latter date being definitive. The rates are shown in the following table:

SCHEDULE OF INCOME TAX RATES SHOWING MODIFICATIONS

CATEGORY OF INCOME	IN EFFECT, 1925–26	IN EFFECT, 1927–28	IN EFFECT AFTER JANUARY 1, 1929
A	24	22	20
B	18	16	14
C1	16	14	12
C2	12	11	10
D	10	9	8

The minimum amount taxable varies at present according to category but after January 1, 1929, it will definitely stand at 2000 lire for all categories. Until that date the exemption rate for category (B) stands at lire 534 if the recipient is engaged in industry or commerce and at lire 640 if he is engaged in labor. The exemption line stands at 800 lire for category (D).

The same tax reform established a supplementary tax on income from all sources known as the *imposta complementare.* In this case, however, a substantial exemption is provided. Allowance is made for the maintenance of a family and deductions are permitted for interest payments on mortgages and other liabilities. The tax takes effect only on incomes in excess of 10,000 lire. The rates range from 1 per cent on the first six thousand lire (taxable) to 10 per cent on one million lire or more of taxable income.

Taxation on business transactions is now the second important class of national taxes in Italy. First in this group comes the tax on the capital value of securities issued by corporations at a rate of 2.50 per thousand lire of capital value in the case of registered securities and 4.50 per thousand in the case of bearer securities. The capital value is either calculated according to average rates on the stock exchanges during the preceding year or for such time as the securities may have been floated, or estimated by the issuing brokers.

The registration tax affects all transactions having any legal validity. The number of these dues is surprising. All contracts, deeds, commercial documents and other evidences of legal relations and obligations are covered by this group of taxes. Here, too, belong taxes on licenses for carrying weapons, for fishing, shooting, operating auctions, operating places of public amusement, operating places for the sale of beverages and food, perfumes, patent medicines, bottled wines, automobiles, bicycles, railroad tickets, street car tickets, playing cards, and the like.

With respect to *tariff duties,* little need be said at this place, but reference may be made to the discussion in Appendix E of the interrelation of fiscal and commercial policy in Italy in recent years.

Along with the revenue from the tariff should be grouped the proceeds of taxes on production which covers as wide a range of products as the following: sugar, glucose, alcohol (for beverage or industrial purposes), substitutes for beer, coffee, mineral waters, acetic acid, mineral and vegetable oil, rosin and pitch,

all explosives, gas, electricity, and lighting apparatus. The rates of these taxes on production and manufacture range as high as 20 per cent, and the rates on many insurance and financial transactions as well as the operations of land and maritime transportation companies, tend to be quite as high.

IV. NATIONAL REVENUE FROM OTHER SOURCES THAN TAXATION

The proceeds of sales of state property and particularly the rents derived from the leasing of the national domain have constituted a source of revenue for the Italian government, formerly of rather considerable importance but steadily declining in its relative importance during recent years. The two major sources of income from other sources than taxation have been, first, the net yield from the commercial and industrial monopolies and the lottery; and, secondly, the payments from public utilities, principally the railroads.

The monopolies have cost a good deal to administer and with the exception of the tobacco administration have not been particularly profitable. The four familiar monopolies are the salt, tobacco, matches, and quinine administrations. The lottery has, of course, been relatively profitable although probably less so than some of those administered by other countries.

All of these sources of revenue go back to the early days of unified Italy,[15] and reference may be made to the table on page 350, to indicate their importance from year to year. The commercial monopolies — coffee, sugar, and the like — were emergency expedients, and are no longer in use. The proceeds from the operation of the several state communication services — postal, telegraphic, and telephonic — while steadily larger in recent years, were not net but gross, as officially recorded, and it was not easy to determine for a given year the net loss or yield on any of them; but late in 1926, a change was made, and henceforth only net results will appear in the budget.

[15] The most convenient source for the history of the monopolies is De G. Santis, *Il diritto finanziario privato e pubblico*, 2 vols., Turin, 1918–19, esp. Vol. II, pp. 348–372.

The Italian railroads have proved a heavy fiscal burden. The history of railroad finance in Italy is of such general importance in connection with fiscal policy that rather more attention must be given to it; but it is quite too complicated to make more than a brief summary possible here.[16] Something over 7 billion lire were invested between 1862 and 1914 in bringing the total extent of the state owned railroads from a few thousand kilometers to about 13,900 kilometers. The roads had to be built as part of a national program of development, whether they would pay or not. Administrative and strategic necessity required their construction. Since the prospect of profit was very slight, private capital was not forthcoming, and the state saw itself compelled to raise the money on its own credit. For some years the government tried to operate some of the lines. In 1878 it undertook to manage all the roads which it had constructed or purchased and only those in southern Italy remained in private hands.

The result of government management was so discouraging that in 1885 the roads owned by the state were turned over to private concessionaires with contracts for minimum liability on the operator's part in each case. This experiment was to last 20 years. For a few years the government's share in the proceeds of the private operation amounted to a few million lire annually, the maximum being 10.3 millions in 1887. Then

[16] The fundamental source of information on the history of railroad finance, construction, and operation down to 1903 is the collection of proceedings of the Commission which investigated every aspect of the subject at the end of the twenty year period of experimentation with concessionnaires. *Atti della reale commissione per lo studio di proposti intorno al' ordinamento delle strade ferrate,* 10 vols., Rome, 1903–6. See also, Federico Flora, *Ferrovie e finanza in Italia,* Turin, 1909, Carlo Ferraris, the Chapter on *Ferrovie* in *Cinquanti anni di storia Italiana,* Rome, 1911, Vol. I, Gino Arias, *Principii di economia commerciale,* Milan, 1917, p. 882 ff., and the relevant Chapters in Bachi's *Italia economica* (1908–21) and Mortara's *Prospettive economiche* (since 1921). The most convenient current source of railroad traffic statistics and related data is the monthly survey of *Trasporti e communicazione* in the *Bollettino di notizie economiche..*

came steady deficits. The concessionaires, however, managed to make modest profits during the full 20 years.

In 1905 the government resumed operation of the roads, creating a board of administration with its own financial régime, net operating profits being paid over into the general fund of the Treasury. The plan thus put into effect worked not too badly down to the beginning of the war.

At best, the Italian railroads could not be profitably nor inexpensively operated. Their construction was exceedingly difficult, and of a type that requires heavy outlay on the upkeep of tunnels, viaducts, and other mountain construction. The traffic situation as a whole is unfavorable. The industrial region in the north has a fairly even distribution of freight traffic through the year; but the requirements of the rest of the kingdom are most uneven — an exceptionally heavy demand for service at harvest times, and very slight business at other times. Passenger traffic, in the same way, is seasonal and largely one-way. Operating costs are high, since coal and iron have to be imported; and the transformation to electrical operation is slow — 823 kilometers of system being electrically driven in the fall of 1925, and another 750 kilometers in process or adaptation to electrical operation.

Naturally the war represented a fearful burden on the Italian railroads — a burden quickly passed on to the Treasury. The operating expenses increased to staggering amounts. For a time, the freight revenue tended to gain, but since it was coming out of the public Treasury, in payment for military transportation, not too much importance need be attached to this increase. Replacements became difficult, and the system as a whole was allowed to deteriorate, foreshadowing a most expensive and thoroughgoing program of rehabilitation whenever it could no longer be postponed. The modest surpluses of pre-war days (as high as 80 million lire in 1906–07) soon disappeared, and the situation was grievously aggravated after the war. The deficit in net operating revenue for the fiscal year 1919–20 rose to 1087 million lire; it became 1321 millions the following year, and 1431

millions in 1921–22. Then the Fascist Administration began to cut personnel and eliminate unprofitable services with the definite intention of making the railroad system support itself. In 1922–23 the deficit fell to 1,032 million lire, in 1923–24 to 412 millions, and in 1924–25 a surplus of 176 millions was actually achieved.[17]

Given the same type of vigorous administration as that which prevailed from 1923 through 1926, the railroads of Italy cannot fail, after a few years more of prevailing traffic conditions, to yield a dependable revenue, of quite modest proportions, to be sure, but such as to provide the interest charges on future capital investment for electrification, new equipment, and extension of service. The day is quite remote, however, when these revenues will approximate the total interest burden and other capital charges now met by the Italian Treasury in consequence of the national experiments in railroad construction and operation. But it will mean a good deal if the railroads can pay their own way and also meet the cost of future investment; and the inten-

[17] These figures are taken from the material assembled for the debt funding conferences, alluded to in note 2 on page 202. So, also, are the following data, which refer to the 16,500 km. of State owned railroads, and not the 4,400 km. of privately owned roads.

INVESTED CAPITAL AND COEFFICIENT OF MANAGEMENT OF THE ITALIAN RAILROAD ADMINISTRATION, 1907–1924

JUNE 30	INVESTED CAPITAL (Millions of Lire)	COEFFICIENT OF MANAGEMENT	JUNE 30	INVESTED CAPITAL (Millions of Lire)	COEFFICIENT OF MANAGEMENT
1907	5,724	81.48	1916	7,485	81.74
1908	5,982	82.96	1917	7,557	82.70
1909	6,236	82.26	1918	7,656	94.26
1910	6,387	81.53	1919	7,720	94.44
1911	6,610	81.99	1920	8,596	137.49
1912	6,762	83.16	1921	9,178	138.69
1913	6,982	81.85	1922	10,256	136.21
1914	7,200	81.25	1923	11,599	122.40
1915	7,362	88.21	1924	12,599	102.90

sification of agricultural and industrial production, as well as the steady augmentation of the tourist traffic may reasonably be expected to make this possible.[18]

V. LOCAL TAXATION

Contrary to impressions prevailing among many non-Italian commentators, departmental and communal taxation was by no means unimportant before the war. In 1914 about 600 million lire were being collected annually from taxpayers by the provinces and communes, roughly a third of the amount that the State itself was collecting.[19] In the thirty years, 1879–1909, the aggregate population of eleven of the largest cities in Italy increased 56 per cent, their aggregate expenditures 183 per cent, their non-borrowed receipts 150 per cent. Some of the large cities borrowed a great deal, and the indebtedness of the communes as a whole, which stood at 757 million lire in 1877, had nearly doubled in the following generation, during which period

[18] R. A. Repaci has analyzed the financial accounts of the Railroad Administration for 1923–24 in *Risultati finanziarie della gestione delle ferrovie dello Stato*, Turin, 1925, revealing to how great an extent the restoration of equilibrium between revenue and outgo in system as a whole is attributable to the postponement of normal replacements. See also Professor Flora in *Politica economica e finanziaria del Fascismo*, Milan, 1923, "Ferrovie e tesoro"; and the study of Lanino, *Disavanzo delle ferrovie dello Stato*, cited by Flora.

[19] Material for the study of local, and particularly communal finance exists in the annual *Bilanci communali*, a government publication, down to 1899, and later in the *Annuario statistico delle città italiane*. The two-volume folio work, *Statistica della finanze communali*, Rome, 1912, is a good place to start for the pre-war period. Several municipalities, notably Milan, put out their own studies; see also Giusti, *Le finanze municipali italiane nell' anno 1909*, Florence, 1910. The manuals cited at the beginning of Appendix B furnish some references of value, and there are fifty pages on local finance in E. Lorini, *Corso di scienze delle finanze*, 2d., Pavia, 1913. Important parliamentary papers on both the juridical position and the operation of local taxes are No. 1,105 of *Atti parlamentari, Legislatura XXIV, sessione 1913–19* (the Meda proposal for local tax reform, 1919), and No. 967, *Atti . . . Legislatura XXIV, sessione 1921*. For criticism of excessive dependence of communes on liquor taxes, and other comment, see B. Griziotti, *La politica finanziaria italiana*, Milan, 1926, pp. 66–70.

the gross debts of the provinces grew from 100 lire to 210 million lire. The great National Loan and Deposit Bank (*Cassa depositi e prestiti*) loaned to the communes and provinces together, between 1876 and 1914, no less than 1,610 million lire.[20]

During and since the war the financial situation of the local administrations has been more and more straitened, and the municipalities went heavily into debt in their effort to meet emergency outlays as well as to cover current operating expenses. The finances of Italy's largest city and financial and industrial metropolis — Milan — became almost hopelessly entangled because of floating debt incurred upon a large scale. The national government, naturally, could do little during the war to relieve the situation; and when the post-war coalition administrations dealt with the matter, they hesitated to apply any measures restrictive of borrowing practices while they were quite unable to do anything constructive.

The attention of the Fascist Administration was concentrated wholly on the national situation; although there were frequent declarations from the President of the Council of Ministers and from the Minister of Finance that, in good time, the National government would undertake the reorganization of local finance. In point of fact, the local bodies were forced to get along with slender means from the very beginning of the new régime.

[20] From page 54 of document 967 *Atti parlamentari* of 1921, cited in note 18. This sum had been devoted in part to public works (959 millions) and in part to the extinction of other indebtedness (652 millions). The following loans were made by the same institution to the communes and provinces between 1915 and 1920, inclusive.

(In millions of lire)

	For public works	*For extinction of debt*	*Total*
1915	215	12	227
1916	65	11	76
1917	52	23	75
1918	18	34	52
1919	84	59	143
1920	400	615	1,015

Their collections, together with those of the provinces, have been averaging 4,000 million lire in the two or three fiscal years ending with June, 1925. On the one hand, borrowing on their part was cut down to the minimum; on the other, a substantial number of the local supertaxes and special imposts which they had been permitted to impose (or more correctly, perhaps, which they had not been prevented from imposing) were ruthlessly wiped out or were absorbed by the State. Only the fact that the national government had now taken over certain services that had formerly burdened the local administrations saved the situation from becoming utterly impossible for the latter.

The burden of growing inability to make what they were permitted to raise locally cover indispensable expenditure began to drive one delegation of communal mayors and councilors after another to journey to Rome appealing personally to the cabinet to give them relief. There can be little doubt that the complete absorption of all local administration by the Central government in the winter of 1925–1926,[21] had for its principal motive the reorganization of local finance and the radical cure of the causes for the ceaseless and dreary lamentation of the provincial and town officials.

Under the taxation legislation in effect in 1925, the provinces may impose the following taxes:

1. An addition of 20 per cent to the land tax imposed by the State.
2. An addition of 7.5 per cent to the tax on improved property (buildings) imposed by the State.
3. An addition to the state tax on income from other sources than realty (*imposta di ricchezza mobile*), amounting to 1.5 per cent in the case of incomes derived from commerce and industry, and to 1.2 per cent on incomes from the exercise of professions.
4. A tax (the proceeds of which go exclusively for the construction and maintenance of roads) upon proprietors

[21] Local officials, in communes of 5,000 inhabitants or less, cease by virtue of this law, to be elected, the local mayors being replaced by officials entitled *podestà* (a revival of a medieval title given to the chief public authority).

of vehicles. This tax varies from province to province, being fixed locally.

5. A tax on the increase in valuation of realty due to the carrying out of public works. The maximum rate is 20 per cent.

The municipalities, by virtue of the taxation legislation in effect in 1925, may impose the following taxes:

1. An addition of 30 per cent to the land tax imposed by the State.
2. An addition of 7.5 per cent to the tax on improved realty (buildings) imposed by the State.
3. An addition to the State tax on income from other sources than realty (*imposta di ricchezza mobile*), amounting to 3 per cent on incomes from commerce and industry, and 2.4 per cent on incomes from the exercise of professions.
4. A tax upon the license to carry on any industry, trade, art or profession, not paying the national tax on manufactures, varying from 10 to 40 lire.
5. A tax on sales in commerce, whether by individuals or companies, at rates varying according to the transaction, rising to a maximum of 10,000 lire. (This tax covers every sort of sale except realty transactions.)
6. A tax on users of vehicles, for street repair.
7. A tax (not to exceed 20 per cent) on the increase in valuation consequent upon carrying out of local public works.
8. An addition, not to exceed 20 per cent, to the supplementary income tax collected by the State; or, as an alternative, a local income tax.
9. A tax on licenses to sell alcoholic beverages, not to exceed 50 per cent of the rentable value of the premises.
10. A tax on habitations, not to exceed 10 per cent of their rentable value.
11. A tax on public conveyances.
12. A tax on the employment of domestic and personal servants.
13. A tax on dog licenses.
14. A tax on pianos and billiard tables.
15. A tax on phonographs.
16. A tax on advertising signs of all descriptions.
17. A tax on live stock, not to exceed 10 per cent per head.

Surveying Italian taxation as a whole, it is hardly too much to say that on paper, at least, nearly every activity in which an Italian citizen may engage falls within some category of taxable operations. In their number and cumulative effect, the local imposts have represented about as much as there could be any prospect of getting over and above the prior requirements of the national government.

VI. NATIONAL WEALTH AND INCOME

A. Pre-War Wealth and Income

The amount of the aggregate national income and the aggregate national wealth has long been a subject of study in Italy. The estimates of the wealth of Italy made by various scholars for various years before the war are as follows; it should be borne in mind that distinctly different methods of estimation were employed by these scholars. [22]

ITALIAN ESTIMATES OF PRE-WAR NATIONAL WEALTH

AUTHOR	PERIOD COVERED BY ESTIMATE	BILLIONS OF LIRE
Pantaleoni	1884–89	55
Bodio	1884–89	59
Einaudi	1896–1901	51.5
Nitti	1904	65
Coletti	1900–05	47.5
Principalle	1908	61–65
Gini	1908	80–85
Gabrielli–Wiseman	1914	93
Benedetti	1914	92
Flora	1914	92
Dettori	1914	95
Loria	1914	90
Corniani	1914	100
Mortara	1914	90
Gini	1914	111

[22] All the estimates down to and including 1908 are cited and discussed in Professor Gini's volume published in 1914 and mentioned in note 23, at pages 185, 309, 341, and 597. The rest of the estimates cover the period just preceding the war, and are given here in the

Profesor Gini's estimate of 111 billion lire as the aggregate national wealth of Italy on the eve of the war is accepted by the majority of Italian students as authoritative.[23] The distribution of the wealth seems to have been about as follows:

	Billions of lire
Urban buildings	20.0
Non-urban land and buildings	45.0
Quarries, mines, fisheries	1.0
Live stock	5.0
Money	1.4
Savings and like deposits and current accounts	7.1
Government securities	6.4
Other securities	6.6
Furniture and the like	11.5
Other movable goods	10.0
Aggregate wealth	114.0
Aggregate after deduction for capital liabilities of private individuals	111.0

It will be observed that no public property is listed here. It is the aggregate national private wealth which is sought, since

order of their publication. The precise bibliographical references for four of them are given by Gini in his *Problemi sociologici della guerra*, p. 241, note 1. Flora's article appeared in the *Rivista di scienza bancaria* for September, 1926, and that of Loria in the *Nuova Antologia* of June 16, 1918. Mortara's estimate appeared in an unpublished memorandum prepared in 1924–25, and Gini's estimate for 1914 in the official memoranda mentioned in note 23.

[23] Probably the most complete study in any language on the method of calculating aggregate national wealth and income is the volume of Professor Gini, *L'Ammontare e la composizione della ricchezza delle nazioni*, Turin, 1914. This exhaustive work established the basis today accepted for estimating the pre-war wealth and income of Italy; it also contains a practically complete bibliography of Italian and foreign discussion down to 1913. The post-war discussion is again summarized by Professor Gini in four different studies; *Sul probleme finanziario del dopo guerra*, Rome, 1919 (originally a series of articles in the *Supplemento economico* of the journal *Il Tempo*), *Problemi sociologici della guerra*, Bologna, 1921, pp. 240 ff. and 318 ff. (articles which originally appeared in the *Giornale degli economisti* of 1918 and 1919), an article in the *Tempo economico* of January 5, 1921, and a memorandum in the material prepared in connection with the negotiations for the funding of the foreign public debt, the conclusions of which he published in *Nuova Antologia* of August 16, 1926. Professor Gini has also conducted an inquiry for the League of Nations on the national wealth and income of the principal countries.

public buildings and other public property, in the main, serve to determine the value of private goods. From this total of 114 billions must be deducted about 3 billions to cover capital liabilities of private individuals not compensated by assets belonging to other private individuals.[24] The net aggregate, then, of the national wealth would be about 111 billion lire. But if comparisons are to be made between post-war and pre-war Italy, it is desirable to take into account the wealth of the territory formerly part of the Austro-Hungarian Empire, and since 1919 incorporated into Italy. About 4 billion lire — perhaps 5 billion — would be the pre-war valuation of the aggregate private wealth of these territories, according to Professor Savorgnan, whose results Professor Gini in the main accepts; so that, for such comparisons, 115 billions may be taken as the pre-war wealth of the present territorial area of Italy.

. . . . . .

Turning now to estimates of income of Italy, we note that different methods of calculation may be and have been employed. One method is that of comparing the aggregate national wealth of the country under study with the best prevailing estimates of the aggregate national wealth of other countries where the aggregate of income has been worked out in detail. It appears that the ratio of the aggregate of income to that of wealth varies from about 12 or 13 per cent to about 19 or 20 per cent. The countries with relatively large populations, where the average private fortune is low, tend to have the higher national aggregate of private income (in terms of percentage of aggregate private wealth); those, on the other hand, where accumulated wealth is conspicuously large, and where natural resources have

[24] See Gini, *Problemi sociologici della guerra*, pp. 337 ff. The method followed is that of computing the difference between all private credits (deposits and the like) and all private indebtedness (bank loans of various sorts, and the like). The assumption is made that transactions between individuals — as distinguished from those between individuals and institutions, and apart from transactions secured by mortgages — result in a practical balance of credits and debits.

been turned to account for some time on a large scale, tend to have a considerably smaller percentage ratio. Pre-war Germany, and especially pre-war France, would be examples of countries where the ratio of income to wealth is relatively small. Post-war Italy belongs in the class of countries, of which India is the extreme type, where the percentage is relatively high. For Italy, Gini regards 17 or 18 per cent as reasonable. When applied to pre-war Italy, it gives an aggregate of private income of from 18.9 billion to 20 billion lire.[25]

This figure of 20 billions, or something a little less, is confirmed by the other two methods employed in the calculation of national income, — that is by the valuation of the commodities consumed, or by the valuation of the services performed and goods produced by its population. The total consumption of commodities by the Italian people just prior to the war appears to have aggregated some 17 billion lire, while their total savings amounted to between 2.25 and 2.5 billions. As for the valuation of production and services, — not including household labor for which no payment is made, — Gini has estimated the following distribution: [26]

VALUATION OF THE PRODUCTION AND SERVICES OF THE ITALIAN PEOPLE JUST BEFORE THE WAR

(In billions of lire)

Agriculture, forestry, and fisheries	7.0
Industrial production	6.0
Commercial and financial services	2.0
Public and personal services	2.0
Income and urban property	1.0
Income from public securities	0.5
Remittances from Italians abroad	0.5
	19.0

[25] The same percentage is felt to be reasonable for those territorial accessions which the war brought to Italy in Europe. When it is applied to them as well as to the pre-war area of the kingdom, it gives an aggregate of private income of from 19.5 billion to 20.7 billion lire just before the war for what is now the Italian kingdom.

[26] In the official memorandum mentioned in note 23, where also appears the result of the calculation of consumption of commodities.

B. Wealth and Income in 1925

What effect did the war have upon private wealth and income in Italy? It is too early, even now (1926), to be able to measure all the economic consequences with precision. The effect of rapid and considerable exchange fluctuations and of changes in the spending power of gold is not the only, not even the main, cause for complication. More serious are the consequences of changes in standards of living, in occupational activities, in commercial outlets. The redistribution of private wealth through the impoverishment of some classes and the enrichment of others is in itself a problem whose study calls for inexhaustible patience.[27] Finally, those complex stimulations or depressions of a psychological nature which are bundled together under the expression "changes in efficiency," and the very modification, as an outgrowth of the war of human aspirations and objectives,[28] can be little more than the object of surmise.[29]

[27] There is a growing literature devoted to this topic; reference may be made to the interesting study of R. Lewinsohn, *Die Umschichtung der europäischen Vermögen*, Berlin, 1925.

[28] By reason of educational and vocational developments, encouragement of "back-to-the-land" movements, and other factors essentially spiritual in character.

[29] Professor Gini has well described the difficulties in the following passage from the official memoranda heretofore cited:

"The fact is that the valuation of national wealth is a delicate and difficult operation which implies many hypotheses, that are true only when the economic and financial organism is in a state of approximate equilibrium. When this is not the case, the operation lacks precise significance. Something similar occurs in certain operations in physics, for instance in weighing, which cannot be carried out with moving bodies. The difficulties arise from uncertainty, in abnormal periods, as regards the amount of stocks; from the presence of debts and credits abroad on which interest is not being paid and which do not, therefore, at present, require an increase in taxation, while it is not known whether and in what degree, in the valuation of goods, the market discounts the increase of taxation which is foreseen in connection with the presumable payment; from the eventual existence of paper money abroad which will have to be absorbed either by the Government, by means of public loans, or by the market, with consequences which will also be not without influence on the valuation of goods; from the lack in many cases of correspondence between the price

With what material is at hand, however, some provisional estimates of post-war wealth and income must be advanced. It appears somewhat easier to establish a tentative figure for the national aggregate of private income for a given unit of time in the period since the war than to arrive at a valuation of the aggregate of private wealth.[30] Here, again, the latest and most thoroughly organized study is that of Professor Gini, who arrives at the conclusion that, under such conditions as obtained during, let us say, 1924 and 1925, and in terms of the approximate average value of the lira during those years, the national aggregate of private income would have amounted to between 100 and 105 billion lire.[31] The total value of food consumed, and of the services directly connected with its consumption, he thinks, would attain some 63 billion lire at the prices prevailing in much of 1925; and this category of expenditure represented fully 65 per cent of total expenditure per family unit, in 1925. All commodities consumed, therefore, might be calculated to have been worth some 97 billion lire (in 1925); and savings probably aggregated from 7 to 8 billions, although responsible banking authorities have estimated them as high as 12 billions.[32]

of goods sold which serves for the monetary valuation of wealth and the value of goods not sold which still constitute the preponderating part of the national wealth; from the uncertainty concerning the future state of prices; from the continuance of impediments to free contracts regarding certain property, especially house rents, impediments of which it is difficult to foresee the end; from the different modifications, which vary greatly in different districts, between the proportion of production set aside for compensation to capital and the part set aside for compensation to labor, and from the belief, naturally differing from one person to another, that such modifications may be permanent or temporary; from the great difference from one country to another in the prices of many commodities and particularly of real estate, caused by these circumstances."

[30] But obviously not much use can be made of the method of comparing ratios of income to wealth, because of the incompleteness of data regarding the latter. Only the results based upon the consumption of commodities, and on production data, lend themselves to use.

[31] Official memoranda previously cited.

[32] The range of estimates of income is naturally greater for the post-war period than for that before the war. Professor Mortara

So far as the other method is concerned — that of estimating the value of production and of services — Professor Gini ventures the following tentative allocation.

PROVISIONAL VALUATION OF THE PRODUCTION AND SERVICES OF THE ITALIAN PEOPLE FOR 1925
(In billions of lire)

Agriculture, forestry, and fisheries	32
Industrial production	36
Commercial and financial services	11
Public and personal services	11
Income from urban property	4
Income from public securities	4
Remittances from Italians abroad	2
	100

Turning now to the best available estimate of the value — in terms of the lira during 1925 — of Italy's aggregate private wealth. Using the same classification as appears on page 445, we have the following provisional estimate of Professor Gini.

	Billions of lire
Urban buildings	90
Non-urban land and buildings	200
Quarries, mines, fisheries	5
Live stock	35
Money	7
Savings and like deposits and current accounts	18
Government securities	45
Other securities	40
Furniture and the like	55
Other movable goods	45
Total for the old provinces	540
Excess of private liabilities not offset by assets	10
Net total for the old provinces	530
Wealth of the new provinces, net	20
Total for the entire kingdom	550

Professor Gini, of course, does not adhere rigidly to the total of 550 billions. He would set upper and lower limits rather far

quotes in his *Prospettive economiche* for 1922 an estimate as low as 70 billions; but in his edition for 1925 he submits an estimate of from 90 to 100 billions for the period embraced by the fiscal year 1924–25.

apart, the figure of 550 billions being rather close to the middle figure. Professor Mortara, in a study not yet published, is reported to have reached the conclusion that the best figure, as of 1924–25, would be 400 billions.[33]

We have, then, Gini's estimates of about 550 billion paper lire as the aggregate national wealth of Italy in 1925, and approximately 100 billion lire as the aggregate national income. The figure for national wealth, after allowance is made for the depreciation of the lira, is almost the same as the figure for 1914, which stood at 111 billions.

It is true that the war wrought great damage to that portion of Italy's national wealth which was in the form of material equipment such as factories and farming areas. But by 1925, the devastated areas had been practically all repaired and the factories had long since been put in working order. Such devastation or deterioration as had not yet been repaired may be regarded as substantially offset by war-time and post-war additions to industrial equipment, transportation, and of public utilities. The acquisition of the great commercial city of Trieste was of importance, not so much perhaps because of its wealth as because of its significance as a commercial center and gateway to the north and east. It should not be overlooked, however, that the work of reconstruction in certain lines, and the expansion in others, has resulted in the accumulation of financial obligations which for a long time to come will continue to act as a drag upon the production and renewal of wealth.

Of more interest perhaps than the figures of wealth are the estimates of national income. How did the income of 1925 compare with that of pre-war conditions? Gini makes a comparison of the income of 1925 with that of 1914 by multiplying the income of 1914 by the cost of living index which in the middle of 1925 was below 500. He takes the cost of living index rather

[33] There are even lower estimates, while certain writers outside of Italy have selected totals rather markedly higher than the outside upper limit reasonably indicated, that is, 600 billion lire. Their estimates are clearly exaggerated.

than the index of wholesale prices since in the latter such important items as rent, professional fees, and others are not included.[34] This method of conversion would indicate that the value of the aggregate national income in 1925 was approximately the same as in 1914.[35]

These estimates of national income may be checked in a rough way by comparing the physical quantity of production in 1914 with that of 1925. In the following table, Professor Mortara presents as fundamental indices the following four items, in certain annual averages:

Indices	1912–13	1920–21	1922–23	1924–25
Production of wheat and barley (millions of quintals)	54	47	57	58
Consumption of raw cotton (millions of bales)	0.91	0.78	0.85	0.97
Consumption of coal (millions of tons)	10.6	7.9	9.7	11.1
Production of steel (millions of tons)	0.92	0.74	1.13	1.47

[34] See Appendix F, p. 510. The wholesale price index for all of 1925 was 646 (Milan Chamber of Commerce, Bachi's figure, 696). The index reached quite high levels in the winter months, 1925–26, but declined in the spring of 1926. The official cost of living index for the year 1925 was 605, that of Mortara about 608.

[35] Gini also makes a comparison of Italy's income for the two years by bringing into play the influence of exchange phenomena. He first compares the 1925 paper lira with the gold lira of the same year as shown by the foreign exchanges. This gives an income of 20 billions, approximately the same as is reached by using the cost of living index. As a second step, he converts the 1925 gold values back to 1914 gold values, in order to take account of the changes in the value of gold. In would thus appear that there has been a shrinkage since 1914 of roughly one-third.

This computation is of practical significance to the extent that Italy has to purchase supplies in international markets. It is a temporary phenomenon, for, when the process of internal price readjustment shall have been completed, the decline in the purchasing power of the lira, relative to pre-war price levels, will cease to be effective or even apparent.

In the table which follows are presented certain quantitative production data for the years 1909–14; 1921–24; and 1925.

Production	1 Annual Average 1909–14	2 Annual Average 1921–24	3 1925	4 Percentage which col. 2 represents of col. 1	5 Percentage which col. 3 represents of col. 1
Wheat Million quintals	49.2	51.1	65.5	103.9	133.1
Rye " "	1.3	1.6	1.7	123.1	130.8
Barley " "	2.0	2.1	2.8	105.0	140.0
Oats " "	5.0	5.1	6.8	102.0	136.0
Rice " "	4.8	5.1	6.3	106.2	131.2
Corn " "	25.6	23.1	27.0	90.2	105.5
Total Cereals . .	87.9	88.1	110.1	100.2	125.3
Potatoes " "	17	17.6	22	103.5	129.4
Sugar, Thousand "	1,893	3,036.0	1,540	160.4	81.4
Wine, million hectoliters	46	41.0	45	89.1	97.8
Olive oil " "	1.8	2.2[a]	1.6	122.2	88.9
Flax, thousand quintals	28	22.9	26	81.8	[illegible].9
Hemp " "	858	669.0	1,239	78.0	144.4
Cocoons, thousand "	417	389.0	406	93.3	97.4

[a] Average for two years.

It is unfortunate that statistics of production in the various industries, while abundantly available for war years and several years since, do not lend themselves to any effort to compare the pre-war industrial activity of Italy with its record in the last few years.[36]

[36] In order to trace the record of the various industries, it is necessary to have recourse to the yearbooks issued by their respective associations. No government publication is of great assistance in this connection. It is to be hoped, of course, that the *Indici del movimento economico italiano*, lately set on foot under the auspices of an important committee, will fill this need so far as the future is concerned. For pre-war industrial statistics the most convenient place to look is in the annual review of Bachi and in the useful compilation of Pietro Lanino, *La nuova Italia industriale*, four vols., Rome, 1916. For post-war data, reference may be made most conveniently to the *Prospettive economiche* of Mortara. The *Giornale degli economisti* has begun with its issue of May, 1926, what promises to be a valuable survey of all phases of Italy's industries, cotton textiles furnishing the subject matter of the first article. See also International Labor Office, *Enquête sur la Production*, seven vols., Geneva, 1923–25.

If we were able to compare the imports and exports for the years before the war with those of the last few years according to *volume*, it is not at all certain that we should find any material increase in total weight. It was only in 1924 that the *Statistica del commercio italiano di importazione e di esportazione* began to furnish aggregate weight data and it may be noted in passing that for the two calendar years 1922–25, the new system furnishes an indication of the greater volume of business which took place in 1925 as against the preceding year, exports increasing from 4.6 to 4.8 million tons and imports from 20.9 to 22.7 million tons. Comparison with the period before the war, however, is impossible because of the lack of tonnage figures for many of the items as shown in the old *Movimento commerciale del regno d'Italia*, practically discontinued since 1920. Moreover, owing to the shift in the four categories of the pre-war classification to the eight main categories (with 52 sub-classes) in use since July 1, 1921, it is not possible to make more than the roughest approximation to a comparison of raw material imports in the two periods, for example, or of exports of manufactured goods.

The nearest we can come to any fair comparison of pre-war foreign trade with that of more recent years has to be based upon values reducing those of the latter years to the level of 1913 by means of one index or another of the diminution in the purchasing power of the lira. This can be done by means of the use of the index of wholesale prices or by some more elaborate method as the case may be.[37]

[37] The index of prices is used in a study comparing the foreign trade of 1925 with that of the period before the war which appears in *Economia*, Trieste, April, 1926, pp. 310–311, wherein the result is reached that only in 1925 was Italy able to again attain the level of total trade which she had reached in 1913. On the basis of reductions to 1913 values, the excess of imports over exports was calculated by this writer at 26 per cent of the import total for 1924 and 30.6 per cent for 1925 as compared with 31.1 per cent for 1913.

Of particular interest in this connection is the series of studies by Giulio Curato in the *Riforma sociale* of the following months: July, 1919; December, 1921; January, 1924; January, 1925; and

The data relative to the volume of railroad and maritime traffic as well as such quantitative indications as are available with regard to the commodity movement itself, appear to point to the conclusion that Italy experienced in 1925 — and this observation holds good for the winter of 1925–26 — a much greater activity in the exchange of commodities both internal and with the outside world. Apparently all classes of goods increased in the volume handled in both import and export trade. But this, as Signor Curato implies, may not signify any greater volume for internal consumption or any improvement in the relative position of the quantities of goods available for marketing abroad. If anything, it would point to a tendency on the part of Italy towards a greater activity in the future as a trading nation, deriving whatever profit is possible from the distribution of goods purchased by others and endeavoring as far as practicable to have a considerable portion of the fabricating or at least the perfecting process carried out on Italian soil.

In summary, it would appear that the production data, so far as it goes, indicates that Italy's income in terms of goods may be estimated year in and year out as about what it was in 1913 and 1914, or a shade better. The excellent agricultural yield of 1925 must not be counted upon to recur regularly.[38]

VII. ITALY'S BURDEN OF TAXATION

Having estimated the amount of the national wealth, it is now possible to make an estimate of the percentage of the national income that is absorbed in taxation. To measure the burden it is necessary, of course, to include along with the taxation of the national government that of the subordinate government districts, that is, provincial and municipal governments. The

December, 1925. These articles have appeared under the title *Bilancio esterno d'Italia* with the appropriate year indicated. In the latest article recorded Curato has covered the foreign trade of Italy through 1924.

[38] On all of this subject see Appendix G, pp. 520–564.

most recent period for which complete data are available is the fiscal year, 1924–25.

The figures are as follows:

	Taxation	*National income*	*Percentage absorbed by taxation*
	(*In millions of lire*)		
1925	20,649	100,000	20
1914	2,600	20,000	13

The percentage of national income absorbed in taxes has increased by fully one-half. The figure of 20 per cent for Italy may be compared with estimates for other countries as follows: France in 1924, about 20 per cent; Great Britain in 1923–24, about 18.5 per cent; and the United States for 1923, approximately 11.5 per cent.[39]

The present tax burden works out at approximately 500 paper lire per capita, equivalent to about 100 gold lire, or in the neighborhood of 20 dollars. The real burden of a country's taxation is not, however, fully measured until allowance is made for the minimum of subsistence. Subsistence costs represent an indispensable overhead expense to the nation as a whole since upkeep of the population must be assured if there is to be any continuing production at all. The minimum of subsistence for Italy is estimated by Italian economists at 1,200 paper lire per annum, equivalent to about 240 gold lire, or approximately 50 dollars. Deducting this sum from the average per capita income of 2,500 lire gives an income above mere subsistence of about 1,300 lire. The national and local taxes combined absorb in the neighborhood of 38 per cent of this income.

Before we leave this subject of national income, we ought to point out that the aggregate income now has to be divided among a larger number of people than was the case in 1914. While the aggregate income may have increased by as much as 5 per cent, the population has increased considerably more. Accordingly, the per capita income has been reduced.

[39] See Moulton and Lewis, *The French Debt Problem*, 1925, pp. 191–2.

Attention should be called to the fact, moreover, that the last two years in Italy have been years of extraordinary economic activity. The brilliant record in certain fields of industry and the good showing in practically all lines should not be allowed to obscure certain indications rather pathological in character. The low value of the lira has proved a stimulus to industry,—and a somewhat prolonged stimulus because of the widespread belief between the spring of 1923 and the winter of 1924–25 that the currency had been stabilized. At the same time the situation was aided by the efforts of the Fascist administration to make hard work and increased output the great national virtues. The extraordinary harvests of 1923 and 1925 were likewise factors in the increase in national income. The year 1925 must therefore be regarded as somewhat abnormal in character.

The stabilization of the Italian lira and the readjustment of the internal price level in accordance with values as registered on the exchanges will affect Italy's production and employment situation just as it has affected that of other countries. In the next few years, therefore, one cannot assume that the national income will exceed that of 1925; it is more likely to fall below it. Considerations such as those raised in Chapters XI and XII will, of course, also have a pronounced effect upon the trend of Italian wealth and income.

Impressive as these figures are, added weight to them is derived from certain special circumstances as to the composition of the wealth of the countries compared. A nation whose income is derived to a large extent from agricultural production is necessarily subject to the uncertainties of weather, or the limitations imposed by poor soil, deficient and irregular rainfall, and other important factors. Professor Gini estimated that approximately 37 per cent of Italy's aggregate national income in 1914 was derived from agriculture. Eleven years later this total had sunk to about 32 per cent, in consequence of the increasing importance of industry. Landed property is calculated by Gini to have represented 41 per cent of Italy's

aggregate of private wealth, as of 1914, and 38 per cent, as of 1925.[40]

The effect of such a composition of wealth and income as this must necessarily be to render spasmodic and irregular the entire operation of the fiscal machine; and, as has been observed by a sagacious authority in this field, the real limit on taxable capacity lies in the fiscal machinery.[41]

Moreover, it is necessary to consider how wealth is distributed and how dependable and regular income accrues to those who receive it in countries which it is desired to compare in respect of the burden of taxation. Countries predominantly industrial tend to have a greater distribution of income throughout the year than is the case with countries predominantly agricultural in their economic activity. It is clear from the following data that wealth and income are considerably less concentrated in Italy than in the countries of industrial pre-eminence. It may be remarked in passing that there would appear to be somewhat great difficulty, and certainly greater cost, in collecting a given amount of revenue from a large number of persons of moderate income than in collecting the same amount of revenue from a small number of persons with large incomes.[42]

The following table shows how income is distributed in Italy. The minimum indicated in the first column is ten times the subsistence minimum of 1200 lire ($48), that is $480. The fifth and sixth columns show the distribution, in still another way; namely, the ratios of the totals of income in the respective categories to the aggregate of those totals, taking the latter as 1000 (last column), and the ratio of the numbers of persons reporting income in the respective categories to the aggregate of such persons (fourth column); but only incomes in excess of the

[40] These estimates represent much more, in either year, than any responsible estimates attributed to the position of landed property in the aggregate of private wealth of the United States, Great Britain and France.

[41] R. G. Hawtrey, *Journal of the Royal Statistical Society*, 1925, p. 548.

[42] See comment of Sir Josiah Stamp in *Wealth and Taxable Capacity*, London, 1922, p. 118.

equivalent of $1000 are included in the fourth and fifth columns. These figures are based upon the official records of the division of Direct Taxation in the Italian Ministry of Finance, and the computations as well as the conversions into dollars (necessary in order to allocate the groups according to the categories set up) were made by Professor Marcello Boldrini in one of the official memoranda prepared in connection with the negotiations for the funding of the Italian foreign public debt, and were later presented by him in greater detail, under the title "Capacità contributiva e gravame fiscale di alcuni Stati" in *Metron*, Vol. V, December, 1925, page 121 ff. Conversions were made on the basis of dollar exchange rates for the second half of the fiscal year 1924–25.

Categories of Income (in thousands of dollars)	Number of Persons	Aggregate Amount of Income (in thousands of lire)	Distribution of Persons Having Incomes Exceeding One Thousand Dollars, Taking One Thousand As Equal to Their Number	Distribution of Aggregate Incomes in Excess of One Thousand Dollars, Taking One Thousand As Equal to the Aggregate
Minimum to 1	799,062	8,978,970	.....	.....
1–2	165,821	3,541,110	768.19	542.39
2–3	28,760	1,164,300	133.24	178.33
3–4	9,708	520,150	44.97	79.67
4–5	4,762	335,540	22.06	51.39
5–6	2,694	208,930	12.48	32.00
6–8	1,797	228,150	8.32	34.95
8–10	838	115,040	3.88	17.62
10–15	832	151,640	3.85	23.23
15–20	297	77,650	1.38	11.89
20–40	268	109,108	1.24	16.71
40–60	54	38,916	0.25	5.96
60–100	20	22,618	0.11	3.46
100–150	4	7,521	0.02	1.15
150–300	3	8,158	0.01	1.25

Professor Einaudi has drawn up suggestive comparisons of the comparative burden of the Italian and British income taxes.

The following table shows the percentages of tax collected by the two governments from earned, unearned, and mixed incomes. Here the categories have been left in lire.[43]

Income in Thousands of Lire	Earned Income Per Cent of Tax		Mixed Income Earned and Investment		Unearned Income from Invested Capital	
	Great Britain	Italy	Great Britain	Italy	Great Britain	Italy
1	....	9.60	....	10.80	....	24.00
2	....	12.80	....	14.40	....	24.00
5	....	16.00	....	18.00	....	24.00
10	....	16.61	....	18.61	....	24.61
15	....	16.72	....	18.72	....	24.72
20	....	16.92	....	18.92	....	24.92
30	....	17.09	....	19.09	1.04	25.09
60	3.75	17.42	....	19.42	6.46	25.42
120	10.00	18.11	....	20.11	13.38	26.11
240	14.16	18.78	....	20.78	16.66	26.78
360	17.50	19.67	....	21.67	19.16	27.67
600	22.29	20.48	....	22.48	23.33	28.48
900	27.70	21.34	....	22.34	38.33	28.34
1,000	....	21.48	....	23.48	....	29.48
2,000	36.87	21.48	....	23.48	37.29	29.48
6,000	44.37	21.48	....	23.48	44.37	29.48

Considering the more remote repercussions of fiscal exactions upon the national economy, one may fairly call attention to the fact that few countries exceed Italy in the extent to which indirect taxation bears on commodities. Before the war indirect taxation yielded about two-thirds, and direct taxation one-third of Italy's tax income; since the war the relative importance of indirect taxation seems to have been materially enhanced, and Professor Boldrini has calculated that 46 per cent of all tax income in the year 1924–25 was derived from taxation on commodities, as contrasted with 30 per cent and 28 per cent which he attributes respectively to Great Britain and France (for the fiscal years 1924–25 and 1924, respectively).

[43] Published in the *Corriere della Sera*, May 5, 1925, and reproduced in *The Annalist*, New York, August 10, 1925, by Luigi Caselli.

In addition to the burden of taxation as imposed by the State or its subordinate divisions, there has been another sort of taxation in Italy almost equally severe although not capable of calculation on a per capita basis; for little short of confiscation in its original sense (however unintentional the government's policies may have been in this connection) is the effect of the depreciation of the currency upon holdings of government securities. The table on page 462 shows the subscriptions to the great issues of long-term securities before and during the war under various aspects.

Finally, the burden of taxation, the proceeds of which are going out of the country in the form of indemnities, debt repayments, and the like, is likely to be more constantly present in the consciousness of the taxpayer and perhaps to be more of an object of solicitude, if not of grievance, to him than the burden of taxation whose proceeds are to be spent at home. Business men begin to feel such burdens acutely when they find themselves confronted with competition which they deem would be less vigorous had it to bear fiscal charges equivalent to their own. An example of this feeling is the tone of the exchange of views between the British and Ita ian industrial federations in the spring of 1925.[44]

There can be no doubt 'hat a general "taxation strike" is always possible when the burden of taxation becomes literally a burden borne in order that the fiscal burdens of foreigners may be lightened. It does not matter whether in the past the willingness of lenders to extend credit and to deliver goods on long terms of payment has been a decisive factor in the building up of a nation's economic life, or even in the preservation of its political independence. The attitude of colonial populations, and those of relatively "new" countries towards accumulated

[44] At that time, the Federation of British Industries published an extensive memorandum addressed to the British Government on the question of the inter-allied indebtedness. The General Confederation of Italian Industries promptly countered with a detailed reply, reported in the *Supplement* to its *Business and Financial Report,* printed monthly in English, for March, 1925.

EFFECT OF CURRENCY DEPRECIATION UPON VALUE OF SUBSCRIPTIONS TO GOVERNMENT SECURITIES*
(In millions of lire)

LOANS	NOMINAL VALUE OF SUBSCRIPTIONS	PRICE OF ISSUE	AMOUNT ACTUALLY PAID FOR SUBSCRIPTIONS	DEPRECIATION OF LIRA COMPARED TO GOLD AT TIME OF ISSUE OF LOAN	AMOUNT ACTUALLY PAID CALCULATED IN GOLD AS OF TIME OF SUBSCRIPTION	VALUE OF SUBSCRIPTION IN GOLD LIRE (1925)	PERCENTAGE OF LOSS	AVERAGE LOSS ON ALL SUBSCRIPTIONS
Securities issued to 1915 . .	13,394.0	....	13,394.0	1.00	13,394.0	2,678.8	80.00	....
Redeemable loan 4% (issued December, 1914) . . .	1,000.0	97.00	970.0	1.00	970.0	194.0	79.99	....
Redeemable loan 4½% (issued June, 1915)	1,145.9	95.00	1,088.6	0.78	849.1	217.7	74.36	....
Redeemable loan 5% (issued December, 1915) . . .	3,018.1	97.50	2,942.6	0.78	2,295.2	588.5	74.22	....
Consolidated 5% (issued January, 1917)	3,798.5	90.00	3,418.6	0.80	2,734.9	683.7	75.00	....
Consolidated 5% (issued December, 1917)	6,089.1	86.50	5,267.0	0.80	4,213.6	1,053.4	75.00	....
Consolidated 5% (issued January, 1920)	21,097.4	87.50	16,360.2	0.39	6,380.5	3,272.0	48.71	....
Total	49,543.0	....	43,441.0	....	30,837.3	8,688.1	....	72.47

* Based on Bonaldo Stringher: *Sulle condizioni della circolazione e del mercato monetario durante e dopo la guerra*, Rome, 1920, and subsequent reports of the Ministers of Finance.

public loans from older countries, at times of depression or widespread distress on the part of either borrower or lending country, is not unfamiliar. When once a population, or particularly its business community, gets the notion that the State is grinding revenue out of it in order to make payments to some foreign creditors, then the limit of taxable capacity has not only been reached, but exceeded.[45]

[45] In this connection an interesting passage may be quoted from Wilhelm Röpke, *Geld und Aussenhandel*, Jena, 1925.

"It is in fact *possible*, and in the case of so great a financial obligation as the German reparation debt as good as *certain*, that it is not going to be feasible, in view of the limited absorptive capacity of foreign markets, so to pile up the value of our exports, that the balance (after the satisfaction of our foreign obligations) can suffice to guarantee our imports on the scale required for the carrying on of production and for the maintenance of a minimum national consumption at home. This impossibility, of course, will reveal itself in good season by a general 'taxation strike' (Steuerstreik) on the part of the population caught between the upper millstone of reduced public expenditure and the nether millstone of greatly augmented public revenues; nor, in the long run, can the population be moved by any penalties to the point of allowing its existence to be so profoundly menaced."

APPENDIX E

TRADE AND COMMERCIAL POLICY

ALTHOUGH it is true that Italian national unity became a fact only after the principal colonial prizes of the nineteenth century had already been acquired by other nations (in any case, after the line of claimants for them had been formed), Italians may attribute the development of their important foreign trade to two great events — the substantial realization of unity itself in 1861, and the opening of the Suez Canal in 1879. Little will require to be said as to the importance of the opening of the Canal in changing commercial routes and affecting markets. But the story of Italy's commercial policy will need to be traced in its broad outline, at least, in order that the chief element in the industrial development of the country may be understood, and the significance of the present international dependence of Italy fully perceived.[1]

[1] Detailed discussion of Italian commercial policy is not possible within the compass of this Appendix, a fact the more regrettable because of the lack of any comprehensive discussion of the subject in English. Current discussions (and bibliography) are to be found in the economic yearbook of Professor R. Bachi, *L'Italia economica* (down to 1921) and in the *Rivista di politica economica*, Rome monthly,—as well, of course, as in the well-known economic journals of Italy, *Riforma sociale*, *Giornale degli economisti*, *Economia*, and others. An authoritative survey of the period 1861–1910 occurs in the monograph of Bonaldo Stringher in Volume III of *Cinquanti anni di storia italiana*, Rome, 1911, entitled *Gli scambixon l'estero e la politica commerciale dal 1860 al 1910*. The monograph of R. Züblin, *Die Handelsbeziehungen Italiens*, Jena, 1913 (No. 16 in the series *Probleme der Weltwirtschaft* edited by Bernard Harms of the University of Kiel) is a methodical summary of all the statistical data and an analysis of commercial policy down to 1912. The

I. PRE-WAR COMMERCIAL HISTORY

One of the principal objects of Count Cavour was the encouragement of foreign trade. Like Marco Minghetti, one of his principal collaborators, who slowly passed in after years from free trade views to militant protectionism, Cavour was, in consequence of his entire training and background, theoretically opposed to the principle of protection by means of tariffs. But, practical statesman that he was, he found it desirable to adjust the nascent industrial life of Piedmont to international commercial requirements.[2] In the years between 1848 and the outbreak of the Crimean War, he concluded commercial treaties with France, Switzerland, England, the German Zollverein, Austria and the Netherlands. In all, Cavour concluded not less than 33 commercial treaties in the period of his administration. His policy in these negotiations was obviously to secure markets of fair promise for the exports of the Sardinian kingdom.

compact study, *Politica commerciale dell' Italia* of Professor Bresciani-Turroni, Milan, 1920, summarizes wartime and early post-war discussion. In the *Principii di economia commerciale* of Professor Arias, Milan, 1917 are many sections devoted to the review and analysis of Italian commercial policy. Two other works of importance are L. Fontana-Russo, *Trattati di commercio e l'economia nazionale*, Rome, 1902, and G. Valenti, *L'Agricoltura e la politica commerciale dell'Italia*, Rome, 1917.

[2] Two declarations of Cavour will illustrate his views. Speaking on July 14, 1851, on the commercial treaty with the Zollverein, he said: "The cabinet is on record in favor of free trade, and still maintains this principle; but it has made it clear that the principle must be applied gradually, prudently and in such fashion as not to jeopardize the present state of affairs." More significant is his remark when the Anglo-Sardinian treaty was being ratified (February 25, 1851): "They tell us that the protective system creates capital; but as a matter of fact all that it does is to change the direction in which capital is employed, favoring its flow towards protected industries. They tell us too, that we need capital from abroad; from one point of view this is true, but we ought to consider the cost of this capital brought from abroad to be employed in our industries." These and other extracts from Cavour's speeches are to be found in Carlo Ferri's monograph, *Il pensiero economico del conte di Cavour*, Milan, 1921, together with useful bibliography.

A. Commercial Policy, 1861–1914

In the early years of unified Italy the commercial policy was one of moderate protection. Although Cavour passed from the scene his policy of commercial unification was pursued. The half-dozen major states of the peninsula, including the Piedmontese Monarchy itself, had previously pursued commercial policies framed not only without the slightest idea of co-operation, but even in conflict one with the other. Indeed, the commercial interchange and activity which had characterized all portions of the peninsula in the later Middle Ages and down through the eighteenth century, had begun somewhat to diminish rather than to promise future progress, because of the obstruction to trade, inter-state or with non-Italian countries, which had characterized the fiscal systems of the majority of these states. Under date of June 27, 1861, a general customs tariff was proclaimed which in a sense forms the starting point of any consideration of Italian commercial policy, or in fact, of the actual trade relations between United Italy and the rest of the world. This general tariff and the commercial treaties which were based upon it in the main, notably that concluded with France, were moulded considerably more after the model of free trade than Cavour himself may have intended, inasmuch as the requirements of such diverse territories as now come under the House of Savoy might have justified a more elaborate and protective policy than had been necessary in Piedmont. But the reaction towards more and more protective principles did not take long in developing, although its consequences — tariff struggles with neighboring countries and particularly with France — did not reveal themselves fully until almost two decades later.

Almost at once, after the enactment of the National Tariff Act of 1861, voices in favor of a comprehensive and frankly protective system began to be heard. It was, however, less the direct consequence of this pressure than it was the result of the Treasury's necessity for additional sources of income. Certain increases in tariff rates were adopted, schedule by schedule,

during the years 1863–1874. In the latter year, a basis for a general reorganization of the tariff was recommended by a commission which had been at work since 1870. After some years of discussion, a new tariff law was adopted in 1878; while its main importance lay in the field of procedural reform, it increased tariff rates rather substantially on textile and metallurgical products, among others. But it was only in 1887 that the program of the protectionists may be regarded as having been fully accomplished. The rapidly developing changes of the seventies and eighties made some such result as that of 1887 inevitable. The pressure to protect domestic production as an act of defense of a relatively congested population against the invasion of industry, commerce and even finance from countries which had been strongly protectionist for a century or little less became irresistible in the early eighties. Moreover, this was the decade when the competition from across the Atlantic in agricultural commodities had brought about a sharp fall in European agricultural prices,[3] a change which menaced Italy's international position more seriously, perhaps, than that of other countries where industrial development had reached such a stage as to preserve a better balance in foreign trade relations. Finally, the restoration of currency stabilization which also characterized the decade from 1880 to 1890 stimulated the development of export trade, and this fact was emphasized in support of claims of manufacturers for protection from the consequences of the loss of the advantage of producing in a country of depreciated currency.

The discussion of the broad policy and of infinite numbers of more or less related details was prolonged and impassioned. Again, resort was had to the use of official commissions of investigation. The committee surveying industrial problems recommended a moderate employment of tariff protection, while the committee surveying the foreign trade problems of agricultural production was unable to reach any more decisive conclusion

[3] See Nourse, E. G., *American Agriculture and the European Market*, 1924, Chapter I.

than that matters had best be let stand as they were, without much interference on the part of government in the affairs of agriculture.[4] On January 1, 1888, a new general tariff went into effect, and remained until July 1, 1921, the basis of the Italian protective tariff system, although, in the nature of the case, it experienced many modifications in the intervening years.

The protectionist program quite won the day in the framing of the Tariff Act of 1887. A steady modification of the commercial relations of Italy with foreign countries began even before the new law went into effect. A sharp struggle with France, heretofore Italy's leading customer, began with the denunciation of the treaty of 1881, which had replaced the liberal treaty of 1863, each country applying the maximum rates of its general tariff imports from the other, Italy going so far as to impose special rates on French goods. Some branches of industry within a few years experienced a rapid expansion while the foreign trade of the country in general shifted its emphasis more and more from the exportation of agricultural products to the importation of raw materials for industrial purposes and the exportation of fabricated goods.

During the years while the policy of protection was frankly being made the basis of Italian commercial policy, what may fairly be described as the second great factor in stimulating foreign trade had begun to operate. The opening of the Suez Canal constituted a fact of the utmost importance for the economic life of all Mediterranean countries. While the commercial conditions which had prevailed in the eastern half of the Mediterranean between the practical abandonment of the Levantine routes for the conduct of Asiatic trade and the completion of the Suez Canal might not fairly be called conditions of stagnation, nevertheless, there had been no opening for any trade expansion along the eastern Mediterranean seaboard sufficient

[4] These reports (*Atti della commissione d'inchiesta per la revisione della tariffa doganale*, Rome, 1885–6), generally associated with the name of F. Lampertico and V. Ellena, Chairmen of the Commissions, are among the more interesting documents of the world's tariff literature of that period.

in itself to support or encourage industrial expansion in a European country. Almost at once, Italy felt the effect of the new lines of traffic between the West and East from which she derived not only the advantages of convenient location for the rendering of port-of-call services but also the advantage of direct participation in the trade of the African and Levantine markets. In due course, the markets around and east of the Suez Canal became more accessible to Italian products and more easily available as sources of Italian imports. With the facilitation of new trade connections by the opening of the Suez route, there came an important revival of a traditional trade connection, namely, with the Black Sea and Southern Russia. This revival was not directly consequent upon the creation of the new markets but was stimulated thereby because of the creation of shipping, commercial, and financial services for the distribution of Italian goods or acquisition of foreign products.

The half dozen years following the adoption of the Tariff of 1887, were, of course, years of widespread business depression throughout most of Europe and the growth of Italian trade again suffered the same setbacks as the foreign trade of other countries. As soon as the recovery was noted anywhere Italy felt its effects. But Italy had special difficulties of her own. Domestic currency and credit adjustments were extremely painful, and the uncertainties of trade with foreign countries, owing to ruthless and costly tariff warfare, threw the shadow of great hardship over the period and stimulated emigration. Only in 1898 were trade relations with France put upon a reasonable basis; in the ten years preceding, Italy's trade relations with Switzerland, Austria, and Germany were considerably augmented (chiefly on the basis of commercial treaties concluded in 1891–2) but hardly in sufficient degree to compensate for the loss of the French market.

B. The Persistent Trade Deficit

How far were the treaties concluded on the basis of the commercial policy adopted in 1887 responsible for the significant

increase in the excess of imports over exports in later years? From 1900 to 1906 inclusive, the average value of the exports represented about 81.4 per cent of the average value of the imports; while, from 1907 to 1913 inclusive, exports equaled on the average only 64.2 per cent in value of imports.[5] The modifications in tariff schedules in consequence of the treaties concluded since the beginning of the new century hardly could have been responsible for this failure of exports to keep abreast of imports; the Division of Commercial Treaties of the Ministry of Finance was of the opinion at the end of the period that the increase in imports relative to exports was due to tariff legislation only to the extent of about 7 per cent.[6]

The cause of the uniformly unfavorable trade balance over the generation before the war was, particularly in the later years, the subject of some discussion; and the extent to which the progressive industrialization of the country was responsible for the change was, of course, the point most at issue. It was contended that agriculture never enjoyed protection comparable to that granted to industry. A wheat duty was abolished in 1884, and the famous flour duty in 1887, under popular pressure; and certainly their existence had not contributed to the adoption of progressive methods in agriculture. Over most of this long pre-war period during which the principle of protection dominated Italian commercial policy the imports of raw materials for the majority of the basic industries tended to increase more rapidly than the exports of finished goods corresponding to those imports. The one period when this was not the case appears to have been that of the depression prevailing from 1890 to 1896. If, moreover, one considers the increase in importation of food-stuffs as likewise related to the industrial development in that a larger proportion of the population, having flocked into industrial centers, was no longer engaged in the direct production of food-stuffs, one must conclude that the

[5] Bachi, *L'Italia economica nel 1921*, Milan, 1922, p. 5. For trade figures themselves, see table on p. 264.

[6] Bresciani-Turroni, *Politica Commerciale dell'Italia*, p. 31.

process of industrialization did, in fact, constitute the main cause for the constantly unfavorable balance of trade.

How long it would have been before the industrial development would have reached such a stage as to make possible a gradual increase of exports relative to imports, if the war had not occurred, is an interesting point on which to speculate. It is, of course, by no means certain that the expanding resources of Italian manufacturers and capitalists would have been allowed uninterruptedly to be applied to the reinforcement of their technical position, the acquisition of control over certain foreign supplies, and the effective co-operation of foreign capital.

As things stood in 1913, Italy's population was already giving unmistakable signs of a determination, by social and political action, to improve its living conditions and enlarge the share of labor in the control and yield of production. The dilemma of a growing population and a slender patrimony had lent the greatest practical importance and the color of a sound and just decision to the gradual development of a protective (occasionally almost prohibitive) tariff system; this in turn had stimulated industries old and new, and with them had brought into existence industrial and social conditions that could only cause the gravest preoccupations. It is quite conceivable that the settlement of the problems rooted in these conditions might have taken the direction of more and more tariff protection, the governmental subsidy of industry and agriculture alike, and the effectuation of large-scale programs (old age and unemployment insurance, and so on) by the State, in much the fashion, *mutatis mutandis*, as had characterized Germany's development after 1875. Had this been the direction of events after 1913, it is difficult to see how the gap between exports and imports could have been made narrower within a measurable number of years.

C. Geographic Direction of the Pre-War Foreign Trade

Before considering such evidence as there is on how the unfavorable balance of trade was met, it is desirable to review briefly the direction of Italy's pre-war foreign trade. It was

natural, no doubt, that the trend of fashion in commercial policies after 1878 should have profoundly affected the trade relations of Italy with her nearest neighbors. The tariff war with France in the decade beginning in 1887 reduced the total annual trade between the two countries by 350 million lire — perhaps by between three and one-half and four billion lire when the treaty of 1899 became effective.[7] Slowly, after the resumption of friendly trade relations, Franco-Italian commerce progressed towards recovery of its pre-war importance; but not even by 1910, the best year of the fifteen just preceding the war, did the value of the total trade between the two countries (352 million lire) equal the annual average value of the total trade between 1881 and 1887 (649 million lire).

Italy's trade with Germany expanded so rapidly from the middle nineties on that, by 1906, the latter country had captured first place from Great Britain as the source of Italian imports. The explanation is obvious. The imports from Germany included chiefly manufactured goods, expensive in many cases but less so than similar products from other countries; while the imports from Great Britain were then, as they are now, chiefly coal, cotton, and a few other staples. Germany, too, was a growing market for Italian exports, particularly of the class of food-stuffs. For a few years, indeed, at the turn of the century, Germany stood first in the list of Italy's export markets; but after 1901, Switzerland took first place, Germany standing second until 1909, when she recovered the first place and held it through 1914.[8] It has been calculated [9] that 75 per cent of Italy's imports from Germany were fabricated goods, and 80 per cent of her exports to Germany were raw materials.

[7] Calculation of Züblin, p. 272.

[8] The background for this sudden expansion of Swiss-Italian trade which has to be studied in connection with the commercial relations of the two countries with Austria-Hungarian Empire, is to be had in Bek, *Handelsbeziehung zwischen Italien und der Schweiz*, Weinfelden-Konstanz, 1921 (No. 9 in *Schweizer Industrie — und Handelsstudien*, edited by Professor Weyermann of Bern.)

[9] By Professor Arias, *Principii di economia commerciale*, p. 773, note 1.

As we shall note directly, this relation was substantially reversed in Anglo-Italian commerce because of the outstanding importance of coal and textile materials bought from England by Italy. While manufactured goods did bulk more largely in the exports of Great Britain and Italy to each other, than in those of the latter to Germany, it was also true that Germany tended to undersell either of them, in its dealings with the other in all fabricated lines (artistic goods and certain machinery excepted).

Austria-Hungary and Switzerland served more and more largely as sources of Italian supplies in the pre-war decade, the former for timber, wooden ware, beer, and other articles of less importance, the latter country in connection with machinery, and manufactured goods; and both countries consumed large quantities of Italian food-stuffs, livestock, and raw and manufactured textile goods. Central Europe, then, was of paramount importance to Italy, as the source of the widest variety of raw materials and manufactured goods, and the market for Italian food products, wines, and textiles.

Great Britain's trade relations with Italy centered before the war around Italian imports of coal, cotton and wool (including cotton and woolen goods), and machinery; and British imports of silks, hemp, hides, hats, gloves, cheese, fruits, and artistic objects, and (just before the war began) high grade automobiles and tires. It was, on the whole, a trade which seemed fairly likely to remain undisturbed by serious competition. Italy's imports from Great Britain increased much more rapidly. From 279 million lire in 1901, they mounted rapidly to 523 million in 1907, and then after a few years of slight recession, to 592 million in 1913. England's command of the international industrial fuel market and her dominating position in the trade in textile raw materials made it certain, as things stood in 1913, that any expansion of Italian economic activity must result in proportionally larger exports from Great Britain to Italy. The volume and value of Italian exports to England fell off slightly early in the new century, declining to 130 million lire in 1905, thereafter rising steadily to 260 million lire in 1913 (264 million

in 1912). But the British market for Italian exports could not be as dependable as the Italian market for British exports. Italy's exports to England were such that, in a great many cases, competing countries could come in, backed by a cheaper process of manufacture, and offer better terms.

The United States had come to occupy the third place among the countries from which Italy's supplies were drawn, and the second among her markets, in 1913.

ITALY'S TRADE WITH THE UNITED STATES, 1900–1913*
(In millions of lire)

YEAR	ITALIAN IMPORTS FROM THE UNITED STATES	ITALIAN EXPORTS TO THE UNITED STATES	EXCESS OF IMPORTS
1900	226	121	105
1901	234	140	94
1902	211	177	34
1903	212	166	46
1904	239	191	48
1905	238	226	12
1906	311	240	71
1907	393	236	157
1908	405	204	201
1909	390	272	118
1910	363	264	99
1911	415	247	168
1912	515	262	253
1913	523	268	255
Annual Average 1900–1913	334	215	119

* *Statistical Abstract for Italy*, 1925.

The bulk of the Italian imports from the United States consisted of grains, cotton, copper, mineral oils, timber, and tobacco; while the ranking exports to the United States comprised raw silk, cheese, citrous and dried fruits, tomato paste, and olive oil. Apart from the silk, there was very little received by the United States from Italy which could not be produced at home in sufficient quantity, if not of the same quality; whereas the possibility of Italy's finding large scale supplies of grain, cotton, and cop-

per outside of the United States must have seemed remote in 1913. Moreover, the trade of Italy with the United States meant much more to the former than to the latter. During the five years preceding her participation in the war, Italy was the destination of about 3 per cent of the total exports of the United States, and the source of about 3 per cent of the total imports of the latter republic. Yet this commerce, when considered in comparison with Italy's entire foreign commerce, constituted, in the one year 1913, about 10.7 per cent of her total exports, and 14.3 per cent of her total imports.

From the other extra-European markets of importance Italy received some grains (Canada, Argentina), coffee and rubber (Brazil), jute (India), raw silk (China, Japan). In only one case, Argentina, did any of these represent an important market for Italian exports. In the Argentine population's large element of Italian descent there already existed, some years prior to the war, a dependable outlet for Italian alimentary products, textiles, and other "consumers' goods."

Finally, Egypt and French North Africa, and Italy's own African possessions were absorbing fair quantities and wide varieties of her exports, greater in each case than the volume of goods bound towards Italy. The trade with Greece, Turkey, and the Balkan states took the form of Italian textiles and like miscellaneous essential articles in moderate quantities and of less expensive grades, and in return raw materials, timber, hides, and the like. Russia, of course, bulked large as a source of grain, timber, and other materials, and, much less notably, as a consumer of Italian textiles and other manufactured goods, wines, and fruits. The importance of Spain, Portugal, The Netherlands, and their colonies, and Scandinavia was distinctly incidental.

The distribution of Italy's exports, and the proportions in which foreign countries furnished her imports, are set forth in the following list of percentages for the calendar year 1913.[10]

[10] Bachi, *L'Italia economica nel 1920*, Milan, 1921, p. 50; and League of Nations, *Memorandum on Balance of Payments*, 1924, Vol. II, p. 155.

Percentages of the Value of Italy's Total Imports in 1913	
From:	
Germany	16.8
Great Britain	16.2
United States	14.3
France	7.8
Austro-Hungarian Empire	7.3
Russia	6.5
Argentina	4.6
British India	4.0
Rumania	2.7
Switzerland	2.4
Belgium	2.1
Japan	1.7
Turkey	1.6
China	1.5
Brazil	1.5
Australia	1.0
Spain	.8
Egypt	.8
Tunis	.6
Canada	.4
Greece	.3
Libia	.2

Percentages of the Value of Italy's Total Exports in 1913	
To:	
Germany	13.7
United States	10.7
Great Britain	10.4
Switzerland	9.9
France	9.2
Austro-Hungarian Empire	8.0
Argentina	7.4
Turkey	3.7
Libia	3.1
Russia	2.4
Belgium	2.3
British India	2.0
Egypt	2.0
Brazil	1.9
Greece	1.0
Spain	.7
Rumania	.6
Australia	.5
Tunis	.5
Canada	.4
Japan	.2

II. COMMERCIAL DEVELOPMENT SINCE 1914

The Great War and the difficult years of readjustment which have followed have naturally had a profound effect upon Italian trade and commercial policy. "In time of war," remarks a student of Italy's war-time trade,[11] "foreign trade commerce develops in a manner wholly different from its course during times of peace. As the struggle goes on, the state becomes the chief manufacturer, shipper, distributor, merchant, and — eventually — the chief consumer of wealth." The development of Italy's foreign trade from 1914 to 1925 reflects the truth of this observation.

In the table on pages 482–483, will be found the official figures for the trade movement during these years. Impressive as they appear, these figures have to be used with some reserve. The

[11] V. Dentamaro, "Il commercio estero dell' Italia durante la guerra," in *Giornale degli Economisti*, June, 1923, pp. 305–19.

rapid change in the value of currency served to render particularly untrustworthy the statistics produced on the basis of official valuation which was the traditional basis in Italy until July, 1921. Nearly all Italian writers on the subject appear to unite in this opinion. Moreover, attention has to be called to the fact that there was a considerable increase in the amount of smuggling, both from and into Italy, during the years of the war. At the same time the shift in method of valuation in 1921 renders the figures before and after that year to some extent incomparable.[12] In order, however, to arrive at as nearly comparable figures as possible, the annual excess of imports used in the text of Chapter II, pp. 34 and 38, was converted into gold at the annual average dollar rate of the lira.[13] The official paper lira figures themselves appear in Appendix A, p. 264.

A. The Extent and Trend of the Trade Deficit, 1914–1924

The beginning of the war affected Italian trade disastrously as it did that of so many other countries, but the repercussion appeared to be less severe than was actually the case because of

[12] For a discussion of the statistical problems involved in the transitional year, see Bachi, *Italia economica al 1921*, Milan, 1922; and *Rivista di politica economica*, 1923, pp. 416 and 544.

Bachi was of the opinion that the new nomenclature is more scientific and practical than the old (52 categories in place of 19; 2500 items in place of 1200). The figures for the second half of 1921, in any event, show that the import values for the first half of that year and for the two or three years preceding tended to be exaggerated out of line with export values. Responsible students naturally differ as to the precise value of Italian total trade in 1921. The excess of imports appears to have been somewhere between 7 and 9 billion lire.

[13] The discussion in this section is based mainly upon the comment of Professor Riccardo Bachi in his annual review, *Italia economica*, for the years down to 1921 inclusive, of which incidentally a summary was contributed by him to volume II of the League of Nations publication relating to the Brussels Financial conference of 1920 entitled *The Recommendations and their Application: A Review After Two Years*, Geneva, 1922. For the years subsequent to 1921, the annual review of Professor Giorgio Mortara, *Prospettive economiche*, has been helpful, as well as various official memoranda prepared by Professor Mortara and others in connection with the negotiations for the funding of the foreign public debt.

the demand for foodstuffs, fuel, and other commodities which sprang up in the winter of 1914–15 from the countries of Central Europe. Switzerland was gravely affected by the existence of war-time economic conditions, east, north, and west. The physical volume of the foreign trade of Italy was never augmented materially throughout the four and one-quarter years of actual hostilities, the great growth in figures of value merely reflecting price increases. In the one year, 1915, Italy's exports held their own in volume, although there were radical changes in the kinds of goods exported. Imports in 1915 registered a material increase in physical volume from 1914; in 1916 they showed an increase of 16 per cent from 1915. This second year of the war was distinctly gloomy for Italian industry and commerce. The means of production all had to be concentrated upon purposes essential to the conduct of the war and it was with the greatest difficulty that production of other sorts could be carried on and, if carried on, could find markets abroad ready to consume its output. On the other hand, the requirements of the country for fuel and food grew apace.

But unquestionably the hardest year of the great struggle from the economic point of view was 1917. This was true of all the belligerents except the United States. Naturally 1918 was also a very trying period and there had accumulated by that year so many formidable obstacles that the supply and financial problems confronting government officials were greater than they had been the preceding year. On the other hand, in 1918, there was the definite assurance for the Western powers and Italy that the great resources of the United States would eventually be brought into play in their support. This assurance did not exist sufficiently early in 1917 to affect anything but the state of the treasuries of the Associated Powers. The value of Italy's imports in 1917 exceeded that of her exports by more than 10 billion lire. The disproportion between the two currents of trade was even greater in 1918 amounting, *prima facie*, to 13 billion lire.

In 1919, and through part of 1920, the effect of the post-war

trade boom made itself quite apparent, but as yet, the government was too much preoccupied with the liquidation, political, military, and economic, of the state of affairs developed in wartime, to undertake to stimulate trade expansion very systematically. The excess of imports over exports rose to ten and one-half billion lire in value, while in volume, imports increased slightly over 1918, exports by as much as one-half. As for 1920, the unfavorable trade balance — the high water mark for United Italy — amounted because of the rising prices to 15 billion lire in value. In volume, imports actually fell off as against 1919, and exports increased 28 per cent; yet compared with 1913 volume figures, imports were 4.5 per cent less, and exports fully 12.2 per cent less.

Late in 1920, the world price crisis descended upon Italy, with pronounced effect, particularly in 1921, and during the latter year the new customs tariff law went into effect. So far as 1921 and 1922 are concerned, this law to which we shall presently refer in more detail, may be set down as having tended to restrict imports with very few exceptions.

The following year, 1922, while one of political and social disturbance, which could not but affect industrial production and even foreign commerce to some extent, was, on the whole, a period of consolidation during which the disparity between imports and exports was materially reduced. The quantities of both imports and exports showed a definite increase, their lesser value being attributable to the lower price levels prevailing in the world markets. Exports, in particular, experienced a wholesome quantitative increase exceeding in percentage that of any preceding year.

The course of trade in the three years, 1923–25, may be treated as a unit. The exceptionally fine harvests of 1923 and 1925 respectively affected the subsequent fall and winter import figures, just as the disappointing production figures of 1924 made large imports of foodstuffs necessary in 1924–25. Coal imports rose in 1923, as the receipts of coal from Germany under the reparation clauses of the Treaty of Versailles (which do not

appear in Italy's official trade figures) [14] fell off in consequence of the occupation of the Ruhr Valley early in that year; but the recuperation of industry would have stimulated coal imports in any case. The unfavorable trade balance was cut down, but the reduction was disappointingly small; whereas, in 1924 the disparity between exports and imports was diminished considerably because of a spurt in the exportation of manufactured goods. As for 1925, it was mainly the factor of food importation in the winter of 1924–1925, which sharply forced up the excess of imports over exports, but the growing demand for raw materials served to hold the level of the excess through the winter of 1925–1926.[15]

B. Composition of Foreign Trade, 1914–1924

It will be helpful at this point to furnish a simple analysis of Italy's trade in the years 1915–1924, according to the principal classes formerly in use.[16]

The war-time development naturally reflects the military requirements of the great struggle. In Class I, that of raw materials, serious shortages present themselves from the very beginning of the war in such things as coal, iron, cotton, wool, leather, rubber, and jute, all of these natural products of the utmost necessity for military purposes. The steady rise of imports in that class from the low level of 2,068 million (1,387 million in 1913) to 4,556 million in 1918 reflects the importation of coal — at what one Italian commentator describes as "hyperbolical" prices — and the other materials of this class, in the order indicated. The exports in this group hovered below the 1913 aver-

[14] On German coal deliveries under the Treaty of Versailles, see p. 313.

[15] Import and export figures for the first six months of 1926 are shown on p. 44 of Ch. II.

[16] These have been replaced by the eight classes shown in the detailed figures for 1925 which appears at the end of this appendix, on page 493. The use of the four classes was continued by the *Rivista di politica economica* for several years after the discontinuance of this classification by official publications, so as to make possible comparison of the older and more recent totals.

age until the last year of the war when very heavy purchases of hemp on British and French account helped to increase the value of the group as a whole.

It was in the second class of merchandise that some of the most notable effects of the war revealed themselves. Partly fabricated goods included the material for metallurgical, electrotechnical, and other industries directly serving war purposes. Moreover, many of the other industries upon which Italy depends for the maintenance of her export trade call for partly finished goods imported from abroad. More and more, as the war went on, Italy's supplies of partly fabricated materials were procured in the United States. So far as exports in this class of goods were concerned, the same shrinkage in volume, substantially speaking, was registered as in the class of raw material exports, although the high value of such exports as partly finished silk goods and other textiles tended to bring up the value figures as a whole. But even here, by 1918, the strong competition of silk from Japan and the increasing complication of labor and financial problems led to a falling off in both volume and value as compared with the preceding year.

The imports of manufactured goods, comprising Class III of Italy's main trade groups, fluctuated in a way that illustrates how closely tied up with the economic situation of her neighbors Italy has been before and since the war. Many of Italy's imports of this class of goods had come from the Central Powers and the absorption of all the production of the latter in their own war requirements was somewhat responsible for the fall in Italian imports when the war began. The stagnation of Italian business helped to account for it. Then came the intervention of Italy itself in the war and the necessity for holding imports at as low a figure as possible. Nevertheless, general requirements of a great variety forced the value, and even the volume, of imports somewhat higher. In 1916, imports in this class were fully double what they had been in the preceding years; in 1917, larger still, and even in the last year of the war, they held their own in volume. The exports mounted slowly until

ITALY'S IMPORTS AND EXPORTS
(In millions of lire and percentages

CLASSES	1915		1916	
	Value	Percentage of total	Value	Percentage of total
I. Raw Materials:				
Imports	2,068	44.0	3,380	40.3
Exports	233	9.2	350	11.3
II. Partly Fabricated Goods:				
Imports	832	17.7	1,641	19.5
Exports	684	27.0	950	30.8
III. Manufactured Goods:				
Imports	550	11.7	1,515	18.1
Exports	1,043	41.2	1,270	41.1
IV. Foodstuffs and Live Animals:				
Imports	1,254	26.6	1,854	22.1
Exports	573	22.6	518	16.8
TOTAL				
Imports	4,704	100.0	8,390	100.0
Exports	2,533	100.0	3,088	100.0

CLASSES	1921		1922	
	Value	Percentage of total	Value	Percentage of total
I. Raw Materials:				
Imports	5,638	32.7	5,507	34.9
Exports	902	10.9	1,143	12.3
II. Partly Fabricated Goods:				
Imports	2,227	12.9	2,867	18.2
Exports	2,697	32.6	2,833	30.4
III. Manufactured Goods:				
Imports	2,430	14.1	2,343	14.9
Exports	3,219	38.9	3,134	33.7
IV. Foodstuffs and Live Animals:				
Imports	6,972	40.3	5,048	32.0
Exports	1,457	17.6	2,192	23.6
TOTAL				
Imports	17,267	100.0	15,765	100.0
Exports	8,275	100.0	9,302	100.0

* Based upon *Statistica del commercio speciale di importazione e di* 1925, p. 349.

BY PRINCIPAL CLASSES, 1915–1924 *
of total exports and imports)

1917		1918		1919		1920	
Value	Percentage of total	Value	Percentage of total	Value	Percentage of total	Value	Percentage of total
3,823	27.3	4,556	28.4	5,302	31.9	9,179	34.2
360	10.9	503	15.0	759	12.5	1,583	13.5
3,636	26.0	3,882	24.2	2,841	17.1	4,757	17.7
1,027	31.0	822	24.6	2,153	35.5	3,582	30.4
2,634	18.8	2,837	17.7	2,616	15.7	5,540	20.7
1,479	44.7	1,253	37.5	2,191	36.1	4,962	42.1
3,897	27.9	4,764	29.7	5,864	35.3	7,346	27.4
443	13.4	767	22.9	963	15.9	1,647	14.0
13,990	100.0	16,039	100.0	16,623	100.0	26,822	100.0
3,309	100.0	3,345	100.0	6,066	100.0	11,774	100.0

1923		1924		AVERAGE 1922–1924	
Value	Percentage of total	Value	Percentage of total	Value	Percentage of total
6,943	40.4	8,260	42.6	6,903	39.6
1,219	11.0	1,545	10.8	1,302	11.3
2,835	16.5	3,632	18.7	3,112	17.8
3,219	29.0	3,745	26.2	3,266	28.2
2,473	14.4	2,796	14.4	2,537	14.5
4,095	37.0	5,116	35.7	4,116	35.6
4,937	28.7	4,700	24.3	4,895	28.1
2,553	23.0	3,912	27.3	2,885	24.9
17,189	100.0	19,388	100.0	17,447	100.0
11,086	100.0	14,318	100.0	11,569	100.0

esportazione; regrouping published in *Rivista di politica economica,*

the middle of the war and then tended to fall in volume, but to rise in value inasmuch as they comprised expensive textiles, automobile trucks, tires, and other high-value manufactures.

The fourth class of commodities (foodstuffs and live animals) naturally is the most spectacular during the war period. The increases in imports, of course, were practically all on military account. The augmentation of the volume of cereals, fats, live stock, and other items in this class proceeded steadily, more being imported each year, in volume as well as in value.

Important variations in the kind and sources of commodities took place in both import and export trade during the two years 1919–20. The total volume of imports in the broad group of metallurgical and mineral industries was barely 80 per cent of the volume in the last year before the war. The purchase of railroad equipment now bulked large in this group of imports. Rubber and leather were imported in much greater quantities than before the war and, at the extremely high prices of 1919–20, went far to account for the impressive increase in import values in the latter years. The development of the woollen industry stimulated a large increase in the importation of wool (raw and partly manufactured) but while cotton textiles entered in increased quantities, raw cotton fell off owing to the shortage of supply and the disorganization of the domestic industry. Large increases were registered in most of the foodstuffs which Italy imports, particularly cereals, and fresh and preserved meats. The exports tended to increase in the case of high-value fabricated goods, such as manufactured silk wear, cotton and woollen goods, gloves and footwear, high grade automobiles. Mineral exports (particularly marble and sulphur) fell off. The most striking diminution in the volume of exports took place in the group of food supplies. This decline in the exportation of cereals, meats, and related products generally (products in which there had usually been a surplus available for export down to 1919, but a growing deficit in home production thereafter) was due, on the one hand, to the pressing demand of the home mar-

ket, and on the other, to the maintenance of extensive and rigid restrictions.

In the summer and fall of 1920 there appeared the first signs of a sharp contraction in the export trade of such agricultural products of Italy as depend upon an export market, chiefly fruit, olive oil, and dairy products; and the world-wide crisis affected unfavorably the exportation of many high grade exports, such as silk fabrics. One of the few important export groups to hold its own (in volume) was woollen goods and clothing. The imports declined markedly in value because of the general drop in price levels, while from the point of view of volume, there was a serious curtailment in the importation of raw materials for the textile, metallurgical, and allied industries. Some manufactured goods continued for a time to enter in about the same volume, partly, it would seem, because of the policy of manufacturers in other countries desirous of realizing upon crowded stocks, which they offered to Italian customers on conditions rather tempting as to price and credit. Fuel, cereals, and other foodstuffs continued to enter the country in much the same volume.

The year 1921 witnessed a sharp decline in exports, and a period of stagnation all round. In part, as we have noted above, imports fell off, because of the sharpening of tariff protection in the Customs Tariff of 1921. More than ever, foodstuffs stood out as the great requirement of the Kingdom, but this relative prominence was heightened by the lessened demand for industrial raw materials. In 1922 there was a falling off in the exports of raw materials and of foodstuffs, but an increase in that of partly manufactured and unmanufactured goods. The corner had been turned again in the foreign markets; while in the domestic markets the importation of finished goods was relatively declining, while that of foodstuffs remained at a high level.

We come now to the three years, 1923–1925. In 1923, imports on account of the metallurgical industries were sluggish; other raw material imports increased normally or held their own as to volume. Exports expanded under almost every heading,

particularly those of partly manufactured and manufactured goods. The tendency towards a wider distribution of the commodities exported, to which reference has just been made, continued to manifest itself throughout 1923, and, for that matter, 1924 and 1925 as well. An expansion in the export market gained a slight headway.

In 1924, the improvement in exports was fairly well distributed, the food items (fruits, oils, wine, cheese, macaroni, and similar products) being especially marked and further reflecting the benefits of the previous year's crops; while the value of the manufactured goods had increased over 1923 by one billion lire. Imports had increased heavily in respect of raw and semi-manufactured materials, over 1923; manufactured goods showed no significant increase. The importation of food supplies fell below that of 1923 in value, again because of the abundant yield of the latter year. The agricultural production of the year 1924 itself was mediocre, with unfavorable consequences on the trade of the winter months of 1924–25, not merely because of the enforced importation of cereals, but because, too, of the strain imposed upon the Italian currency structure by the rise in price levels which followed the domestic shortage of supplies.

C. The Geographic Direction of Italian Trade: 1914–1924

1. *The war years.* — Not the least important aspect of the violent derangement of Italy's international accounts by the outbreak of the European war was the material change in the geographic direction of her trade. The following table shows the distribution of Italian trade during the war period. More and more the United States became the purveyor of Italy's food and some of her raw materials. Great Britain acted as furnisher of fuel, metals, and various essential materials and manufactured goods, at first because the financial machinery and resources for Italy's increased needs existed only in England. Later Italian dependence on British war material (equipment and ammunition) accounted for the steady increase in the import values.

The Argentine Republic (and to a less extent some of the neighboring states of South America) rapidly displaced European powers of importance in the ranks of Italy's sources of supply and potential markets. Trade relations were created with Australasia and the Far East in the critical days of the war only to disappear almost as abruptly because of their artificial character, the difficulties of transportation or the availability of supply from more familiar sources. But it is the blotting out of Central and Eastern European markets, with reference both to exports and imports, which represents perhaps the most severe strain upon Italy's trade connections. Accustomed as we are to consider Italy's trade relations to be primarily directed to the West, we tend to overlook the fact that the preponderance of the United States, other American countries, and Great Britain is due to less than a dozen bulky commodities or closely related groups of commodities.

In the case of France, Switzerland, and most of the rest of Europe, as well as the Levant, Italy's import trade, in particular, and export trade to some extent, includes a very wide variety of goods upon the dependable traffic in which rests the prosperity of a number of persons engaged in small industry, commission houses and the like, a number relatively greater than that of those concerned with the bulky raw materials and foodstuffs. The advent of the war signified at once the virtual elimination of all such trade relations except with France and Switzerland. In the case of France, commerce took on practically a wholly governmental and military complexion, as the two powers were drawn into more and more economic co-operation incidental to the conduct of their struggle.

Swiss trade with Italy offered problems of a special character during the war.[17] Switzerland was threatened by the war not merely with the loss of essential industrial materials, but, before long, with grave shortages of food. Access to the sea (at least for oversea commerce) became most difficult, and at length was reduced for all practical purposes to the Genoa route. Italy,

[17] Compare F. Bek's study mentioned in note 8, p. 472.

ITALY'S PRINCIPAL TRADE RELATIONS, 1915–1919*
(In millions of lire)

COUNTRY	1915		1916		1917		1918		1919	
	Imports to	Exports from	Imports to	Exports from	Imports to	Exports from	Imports to	Exports from	Imports to	Exports from
United States . .	1,749	283	3,415	315	6,192	244	6,641	169	7,350	630
Great Britain . .	849	391	1,977	447	2,165	483	2,666	427	2,444	773
France	240	438	595	738	993	912	1,334	1,207	760	1,403
Argentina . . .	480	141	554	200	804	192	1,657	138	1,540	149
Switzerland . .	118	314	209	632	249	605	191	410	370	786
Germany . . .	230	204	[a] 12	...	[a] 18	...	[a] 16	...	88	85

* *Annuario Statistico Italiano, Seconda Serie, Vol. VIII, Anni 1919–1921, Indici Economici fino al 1924.*

[a] These figures relate to merchandise withdrawn from customs warehouses where they had been entered prior to hostilities between Germany and Italy.

on the other hand, had to look to Switzerland for many things previously furnished by Austria-Hungary and Germany; such was to be the case, as things appeared in 1914, quite regardless of Italy's own participation in the war. Timber, cellulose, scrap metals, dyes, and like commodities from Switzerland in return for foodstuffs and animals, pyrites, and other raw materials, and a few manufactured articles from Italy formed the basis of exchange. Each country had every reason to avoid embarrassing the other, and the agreement they made in 1915 was lived up to, so far as practicable, down to the end of the war. The desire to prevent commodities from getting through Switzerland to the Central Powers naturally led to numerous restrictions, and rendered more difficult the gaining of export permits waiving the prohibitions of the exportation of food and other essential articles imposed by the Italian government on August, 1914. Despite all these difficulties and the friction due to requisitioning of supplies in Italy, Swiss-Italian trade materially increased until the last year of the war, when the tremendous strain on the resources of all Europe, menaced the continuation of even this remnant of Italy's former trade relations with Central Europe.

2. *The years 1921–1924.* — The period after the war began to throw into relief a change in the distribution of Italy's exports with respect to the sources of her imports. This change had been making itself more and more felt through the entire four-year period, 1919–1923, and it was bound to affect the commercial policy and other economic policies of the Italian State. Whereas, on the one hand, imports have tended to come from fewer and fewer countries, Italy's exports have tended *to an increasing extent* to spread over markets regained or markets acquired for the first time. While Italy formerly sent large percentages of her exports to several of the countries on which she depended for imports, all these percentages in the post-war years declined steadily, while new markets in Eastern Europe, like the Serb-Croat-Slovene Kingdom, came to figure more decisively as countries of destination. Italian cottons were entering North-

ern Persia over the route from Batum as early as the summer of 1925 — a route closed to all foreigners since 1883, but opened to Italian trade by the Union of Socialist Soviet Republics.[18]

An excess of exports over imports developed in the case of France and Switzerland in 1922 and in 1923; while in 1924 Germany and Austria were added to this list. The United States, as the purveyor of cereals, petroleum, copper, and other foods and raw materials — aggregating not much short of four times the value of the manufactured goods and foodstuffs sent by Italy to the United States — occupies a more striking position than ever in Italy's foreign trade relations.[19] Three of the states which replace the Austro-Hungarian Empire have attained important positions both as markets for Italy, and sources of some of her supplies. Germany's return to a position of major importance among those with which two-thirds of all Italy's foreign trade is transacted is spectacular. And it would have been more so if the statistics had taken account of the value of German deliveries to Italy under the reparation clauses of the Treaty of Versailles, or if, in the absence of such enforced deliveries, Italy had had to buy more or less the equivalent of what

[18] On Italian trade in Transcaucasia and Persia, see *Manchester Guardian Commercial*, August 13, 1925, p. 162; and in the same journal of March 19, 1925, p. 318, see references to stiff competition accorded to British exporters to Argentina by Italian manufacturers of textiles and other goods. Other aspects of Italian export trade in textiles are discussed in the same journal on December 10, 1925, p. 633, (and the supplement of that issue entitled "European Textiles"), February 18, 1926, p. 186 (where it is demonstrated that Italy's worst post-war year in exporting cotton goods to Austria, Hungary, Jugoslavia, Bulgaria, Greece, and Turkey is better than her best pre-war year, *considering only quantities*), and March 18, 1926, p. 305; and London *Times Supplement*, "Artificial Silk Number," March 9, 1926.

[19] The trade relations between Italy and the United States in recent years have been the subject of three pamphlets published by the Italian Commercial Attaché at Washington, Comm. Romolo Angelone, *Il commercio italo-americano negli anni 1922–23* and *durante il 1924*, New York, 1924, Washington, 1925, and (considerably enlarged) *Il mercato degli Stati Uniti ed il commercio con L'Italia durante il 1925*, Washington, 1926.

ITALY'S PRINCIPAL TRADE RELATIONS, 1920–1924*
(In millions of lire)

COUNTRY	1920		1921		1922		1923		1924	
	Imports to Italy	Exports from Italy	Imports to Italy	Exports from Italy	Imports to Italy	Exports from Italy	Imports to Italy	Exports from Italy	Imports to Italy	Exports from Italy
United States	8,689	939	5,711	1,084	4,398	1,018	4,619	1,513	4,648	1,232
Great Britain	4,609	1,379	1,680	795	2,022	1,117	2,190	1,200	2,176	1,493
Germany	1,097	574	1,293	814	1,246	972	1,299	693	1,518	1,564
France	1,904	1,696	1,070	967	1,151	1,366	1,323	1,601	1,479	1,822
Switzerland	575	1,505	287	831	331	1,207	376	1,201	414	1,609
Argentina	3,005	604	925	338	771	500	1,503	741	1,106	830
Austria	654	621	445	510	326	222	326	335	466	684
Serb-Croat-Slovene State	62	207	403	4	367	255	489	336	557	370
Czechoslovakia	[a]	[a]	220	53	180	43	158	67	305	141
British India	1,022	229	590	95	...	...	741	99	950	173

* *Annuario Statistico Italiano, Seconda Serie, Vol. VIII, Anni 1919–1921, Indici Economici fino al 1924.*
[a] Less than five million lire.

she has received from Germany, a thing which by no means follows, of course.[20]

It would appear that in the years 1922–1924, something not far from five or six hundred million lire have been received in the form of coal and like German deliveries not recorded in the commercial statistics. On the expansion of Italo-Swiss and Franco-Italian trade no comment need be made except that, on the whole, the economic relations between these countries and Italy are now fully as extensive and well-balanced as in pre-war times. The indefiniteness of the present trade with Russia is, of course, one of the most unsettling and speculative factors in the entire problem of the direction of foreign trade; unless, and until, the economic resources within the jurisdiction of the great Slavic state or group of states become once more practically and dependably available, Italy will have to forego the possibility of purchasing many of her industrial raw materials and her grains from a country close at hand and potentially a market — at least over much of South Russia — for Italian exports.[21]

D. The Trade Situation in 1925

We have left to treatment by itself the record of the year 1925. It is the last complete year for which figures can be submitted

[20] On the other hand it is to be borne in mind that in checking up the statistics of importation and exportation of a given country by those of other countries, even when corresponding methods of valuations are employed in the systems compared, the ultimate destination is not always accurately reflected in export figures. See comment on Italian fruit sent to Scandinavia but recorded in Italian Statistics as destined for Germany in *Statistik des deutschen Reichs*, Bd. 310, V. Berlin, 1924, p. 23 (*Auswärtiger Handel, 1920–22; Italien*) and Bd. 318, III, Berlin, 1925, p. 41, (*Auswärtiger Handel, 1923–24: Italien*). Everywhere transit trade affects the results less, as in the case of France, divergencies of importance occur between the respective statistics; see comparison of French and Italian figures in report of the commerce committee of the French Chamber on the Franco-Italian trade agreement of 1922 (*Documents parlementaires, Chambre, Annexe 7039*, January 25, 1924).

[21] Some progress has been made in the direction of penetration of Soviet spheres of influence, as for example, by the mining syndicate known as the *Società Miniera Italo-Belghe di Giorgia*, which has a 33-year concession in some 30,000 hectares, paying a 10 per cent royalty.

in this volume. The trade deficit for the year amounted to 7,882 million paper lire or approximately 1,576 million gold lire. Without any discussion of its significance, we insert at this place tables showing the composition of Italy's foreign trade in 1925 and its direction.[22]

We present first the table of commodity classes. This is arranged according to the classification in effect since 1921, and not according to the old classification which we have shown for the war years and post-war period to 1924. For comparative purposes, the year 1924 is also shown.

ITALY'S FOREIGN TRADE, 1924–25
(In millions of lire)

CLASSIFICATION	IMPORTS		EXPORTS	
	1924	1925	1924	1925
Livestock, foodstuffs and tobacco	4,838.0	6,555.9	3,762.1	4,611.0
Seeds, oils, fats, vegetables, wax	954.1	1,175.6	394.9	409.2
Textiles and their derivatives	5,424.8	6,586.1	6,649.3	8,358.2
Metallic ores, metals, and their derivatives	2,349.0	3,915.9	958.7	1,405.3
Non-metallic ores, bricks, porcelains, glassware	1,920.9	2,223.8	468.7	541.5
Wood and manufactures of wood	756.9	1,120.5	196.1	219.0
Chemical and pharmaceutical products and dyes	1,412.2	1,727.7	434.8	569.2
Other merchandise	1,723.8	2,851.4	1,506.3	2,161.2
	19,379.7	26,156.9	14,370.9	18,274.6

The wholesale price level which stood at an average of 585 in 1924 rose to an average of 690 in 1925, an increase of about 18 per cent. This accounts for a part of the increase in the value of the foreign trade. But both imports and exports increased

[22] Tables are based upon *Gazzetta ufficiale, Supplemento* of April 20, 1926.

markedly. The former increased by no less than 1,730,000 net tons, and the latter by about 150,000 tons. Huge imports of cereals, coal, iron ores and machinery accounted for the major portion of the increase of imports.

Next is shown the direction of the foreign trade; and here we call attention to the sudden climb into an important position of British India, whence textile materials of various kinds were imported in increasing quantities.

ITALY'S PRINCIPAL TRADE RELATIONS, 1925
(In millions of lire)

COUNTRY	IMPORTS TO ITALY	EXPORTS FROM ITALY	COUNTRY	IMPORTS TO ITALY	EXPORTS FROM ITALY
United States	6,174.8	1,887.8	Argentina . .	1,370.0	1,145.4
Great Britain	2,722.6	1,855.0	Serb-Croat-Slo-		
France . .	2,349.4	2,019.5	vene State .	781.0	496.5
Germany .	2,251.3	2,027.0	Austria . .	659.0	666.1
British India	1,729.1	334.6	Switzerland .	521.7	1,634.4
			Czechoslovakia	465.9	171.5

E. Post-War Commercial Policy

From what has been said earlier in this Appendix with respect to Italian commercial policy, and in the light of the data relating to the decade of war-time and post-war experience which closed, in Italy's case, in May, 1925, the main problems of Italian commercial policy readily mark themselves off. The countries, in or out of Europe, which furnish her basic raw materials and her imported foodstuffs, for the most part, provide markets, to a limited extent for her quality production, her silk and rayon, and other textiles, and certain of her alimentary products — in this last case, however, subject to wide fluctuations. Most of the countries which furnish her with a wide variety of manufactured goods, machinery and the like (countries of Continental Europe), count upon Italian supplies of fruit, edible oils, dairy products, wine, and the like, as part of their regular importations. A dozen countries are comprised in these two categories. Then

there is a third group of countries — quite numerous — with each of which Italy maintains trade relations by trying to build up export markets through the patient construction of credit machinery, and the improvement of transportation facilities.[23]

Desirous of soon achieving the day when her exports safely pay for her imports, the framers of Italy's commercial policy have devoted their attention, in the years after the war, broadly speaking, to the enhancement of the importance of this last group of countries so that they may become purchasers of Italy's products in the future on a steadily larger scale. The raw materials and grain will have to come from where they can be had regardless of the direction of Italy's exports; and there is little that commercial policy will do to affect this situation.

The struggles over commercial policy, since the war, have been fully as passionate in Italy as ever during the earlier years of the kingdom, and quite as much so as elsewhere in Europe in this transitional period. The reorganization of the tariff of 1887 had long been seen as a necessity; as early as 1913 an official commission was established for the purpose of initiating an investigation looking to its reform. Proposals of all sorts were laid before this body; and a surprising strength was demonstrated by the champions of free trade or those in favor of

[23] As an instance of the attention given to financial and transportation facilities in recent years, may be cited founding of Italian banks in Constantinople, inauguration of Black Sea shipping services, and numerous plans for Balkan and Levantine railroad development. See Herlt in *Oesterreichischer Volkswirt* (Vienna) of April 5, 1924, and Hütter in *Wirtschaftsdienst*, May 28, 1926, p. 717. Aerial transportation is naturally of quite practical importance to Italy, the position of which may in a few years make the peninsula one of the strategic centers of world aerial transportation. Already the *Società Servizi Aeri Italiana* plans the inauguration of a regular express passenger service from Trieste to Alexandria (2500 kilometer route, via Brindisi, Athens and Rhodes) in 15 hours. Other important routes will link Italy with Spain, Tunis, and Central Europe. See also Crocco on Italy's position on international air traffic lines, in *Giornale degli economisti*, 1923, p. 508 ff. The achievement of the Marquis of Pinedo in flying to Asia and Australasia in 1925 has given a great impetus to the study of commercial aviation problems in Italy.

moderate rates. When finally in April, 1920, the report of the commission was submitted to the National legislature, the storm became intense.[24] The promulgation of the new tariff without legislative discussion aroused still more controversy.

The tariff of 1921[25] is a general tariff, serving as the understructure for a system of commercial treaties, a great number of which have been concluded by Italy since its enactment. Inasmuch as the Commission drafting it could not keep up with changes in exchange rates and shifts in price levels, it introduced a large number of *ad valorem* rates (the old tariff had had only specific duties), and a system of coefficients of increase. The employment of the latter on a large scale really furnishes the country with a double tariff. It goes without saying that, originating at the time it did, the tariff is "tutta impregnata di spirito protezionista" to use a severe expression of Professor Bachi.[26] Every treaty concluded on the basis of the tariff has

[24] Summaries of the arguments are conveniently furnished by Professor Bresciani-Turroni, in the monograph cited in note 1, p. 464. The report of Deputy Pantano, who submitted the conclusions of the Commission, when the latter completed its labors in 1918, appears as *Relazione generale* in the *Atti della commissione reale per lo studio del regime economico doganale*, Rome, 1920. The report of the Senate Committee on the Act approving the decree which put the new tariff into effect is a convenient resumé of the argument for the defense (*Atti parlamentari-Senato, 631-A, Legislatura XXIV, 1ª Sess., 1921–3*).

[25] Promulgated June 9, 1921, published in the *Gazzetta ufficiale* of June 30. The Association of Italian Corporations and the General Association of Industry have published several editions incorporating all commercial treaty provisions, ministerial modifications, and the like. The 3d edition appeared at Rome in 1924 under the title *Tariffa dei dazi doganali del Regno d'Italia*. An English translation was published as a supplement to the *Board of Trade Journal and Commercial Gazette*, London, July 21, 1921; and the chief important modifications appear there currently, as well as in *Commerce Reports*, Washington.

[26] *Italia economica nel 1921*, p. 287. He points out how even the report introducing the tariff abounds in phrases regarding the "invasion" of the country by foreign wares. Every technical device has been availed of, Bachi claims, to reinforce the protective principle, since every subdivision of the 1200 former items into 2500 in the new tariff, make possible innumerable graduated increases.

been the provocation of a new battle between those — like the manufacture of machinery — who demand more protection still, and those — like manufacturers of textiles, or producers of agricultural and like products — who no longer need protection and suffer from retaliatory duties imposed by other countries. This struggle has arisen during all the negotiations with Germany, Switzerland, the succession states of the Austro-Hungarian Empire, Spain, Finland, the Soviet Union and France, and other countries for the conclusion of the 19 commercial treaties Italy has made between 1922 and 1926.[27]

The tariff of 1921 is a compromise, but one in which the protectionists gained more than their opponents. It is admitted on all hands that this legislation will undergo modifications. The Fascist administration has not meddled with its main lines as yet, although it has sought to soften its asperities in some respects.[28] Regarded, then, as a tentative instrument — "than which there is nothing in the world more permanent," observes Professor Michels in discussing Italo-Swiss relations [29] — this

[27] See Senator Loria, "La réaction protectionniste," in *Révue économique internationale*, 1925, pp. 229 ff. Senator Einaudi's article mentioned in *Economic Review*, London, December 5, 1924, p. 494, also the manifesto of Free Traders in *Riforma sociale*, XXXV, Nos. 9–12. Italian opinion on the Italo-German treaty negotiations may be gathered from the article of E. Giretti in the *Corriere della Sera* of February 22, 1925, summarized in *Wirtschaftsdienst* of March 13, 1925, p. 412; and Giretti, writing in the *Corriere della Sera* of November 8, 1925, gets much consolation out of the adoption in that treaty of the general and reciprocal most-favored-nation clause, which has been characterized as a "small breach in the protective tariff walls of both countries" *Wirtschaftsdienst* (November 20, 1925, p. 1765).

[28] The most extensive changes effected by the Fascist Administration were embodied in a decree of July 11, 1923. The controversy was sharply revived by the decree of July 24, 1925, reimposing the notorious tariff on cereals (as soon as a large domestic crop was definitely foreseen); and the reimposition of the higher rates on sugar (18 gold lire per quintal instead of 9) by decree of October 12, 1925, aggravated the polemical character of the discussion.

[29] "*Disgraziatamente non vi ha talora nulla di piu definitivo del provvisorio*," *Rivista di politica economica*, 1924, p. 721. He quotes the amusing irony of Professors Corbino and Ricci in a pamphlet published by them in 1921 against the tariff project.

tariff will undoubtedly furnish fundamental issues in the political struggles of Italy in the next decade.[30]

"Protection is asked for infant industries. Strange phenomenon! The productive industries which enjoy protection never make up their mind to grow up. Look them all over, and you will find that in spite of the many years they have lived, they are all still children, if anything, becoming smaller than ever. This is clearly a political and economic form of rickets, the cost of supporting which rests on the consumer and the tax-payer." But it is indispensable to any satisfactory comprehension of Italian discussions on tariffs and commercial policy, to read Professor Gini's *Revisione del processo contro il protezionismo*, Trieste, 1923.

[30] Its effect on the economic life of the country has not been comprehensively studied as yet. An interesting series of articles by Professor Gini and Dr. De Simone ("Dazi doganali e prezzi," in *Rivista di politica economica*, 1924, pp. 505 and 615) would tend to show that in the two years following its enactment the tariff had had much less effect on wholesale prices than its opponents contend.

A convenient list of the commercial treaties concluded by Italy from November 1, 1922 to June 26, 1924, appears as Document 10 in the appendix to the speech of the Minister of Finance in the Senate, June 24, 1924. *La ricostruzione economica e finanziaria dell'Italia*, p. 58. The treaties themselves are now appearing under the title *Trattati commerciali del Regno d'Italia*, edited by Dr. A. Giannini, Vol. I, Rome, 1924.

A quite dispassionate survey of the policy which Italy has followed in concluding these treaties, which appeared in the *Wirtschaftsberichte* of the Swiss Commerce Office, is summarized in the *Economic Review*, London, March 6, 1925, pp. 206–7. The discussion regarding the long-drawn-out negotiations between Italy and Germany is quite voluminous; an analysis of the commercial treaty of five years' duration finally signed on November 1, 1925, appears in the *Wirtschaftsdienst* of November 6, 1925, p. 1692. Germany thereby steps on an equal footing with France, Switzerland, Czechoslovakia, and Austria, in Italian trade. The treaty is comprehensive, and amounts to an exchange of raw materials and manufactured goods from Germany for Italy's table commodities and quality goods. The rapidity with which the Fascist administration abandoned the position of reluctant acceptance of a breathing-spell in the trade war with Spain carried on by the régimes of 1921 and 1922, and transformed the *modus vivendi* of April, 1922, into a commercial convention putting the two countries on a plane of complete equality, illustrates the tone of reality that attends the commercial policy of the government since 1922–23.

APPENDIX F

CURRENCY AND FINANCE

I. BANKING PROBLEMS

The Italian peninsula gave birth to the modern concept of a bank as we know it. True it is that the wide ramification of banking almost undistinguishably identified with commerce which characterized the maritime nations and Germany, or the close affiliations of banking and industry in Germany and the United States, were not independently developed in the peninsula. If these characteristics have appeared there, it has been in these recent years and as something borrowed from the financial practices of other countries. It may be noted, however, that there has been on the whole a satisfactory contact between the banks of Italy, and particularly the small mutual banks so numerous and widely scattered, and the agricultural development of the Kingdom. Throughout the nineteenth century, even in the historic states which came to an end with the achievement of Italian unity, this had been a notable characteristic of Italian banking.[1]

[1] The literature on money and banking in Italy is extensive and the bibliographies of Bachi's *Italia economica* will furnish its register for the dozen years ending 1921. In English there exist several useful works of Italian scholars — *Memorandum on Currency and Central Banks, 1915–24* of the League of Nations, 2 vols., Geneva, 1925; *The Banks of Issue of Italy*, by Tito Canovai, in the Monetary Commission's *Report*, Washington, 1911, and Professor Bachi's contribution to the *Report of the Gold and Silver Inquiry Commission* of the United States Senate, Vol. I., Washington, 1925. From the multitude of departmental and parliamentary documents, may be cited the following: *Circoluzione monetaria nei diversi stati*: Vol. I., *Monete e biglietti in Italia dalla rivoluzione francese ai nostri giorni*, Ministero del Tesoro, Rome, 1915. The study of Carlo Ferraris' *Moneta e corso forzoso*, Milan, 1879, is still worth examination, because of its influence in the decade following its publication. The studies of Professor Supino, *Storia della circolazione bancaria in*

The savings bank, the deposit and loan banks,[2] the "peoples" and rural co-operative banks[3] and of course the large commercial banks have built up an elaborate structure. Its principal weaknesses have been, broadly speaking: (1) the facility with which — at least until very recently — small local banks could be established without adequate resources or business; (2) the too intimate connection of the great metropolitan banks with industrial enterprises; and (3) the concentration of the great industrial banks, with the support of officialdom.

This last weakness was perhaps inevitable, in the light of post-war conditions. The lack of independent control of their resources constitutes a potential danger for the smaller non-metropolitan banks. But the policy of the banks of issue and the government has been calculated to prevent the concentration of reserves from resulting in disaster.

Before the war, the banks throughout the country preserved their independence to a considerable extent although they were

Italia, Turin, 1895, *La carta moneta in Italia*, Bologna, 1920, and others are valuable for the historical material; this is also true of *Il diritto finanziario privato e pubblico* of G. De Santis, 2 vols., Turin, 1918–19, which contains long chapters on banking and monetary development; and data nowhere else recorded are gathered in the monographs of Director General Stringher, *Sulle condizione della circolazione e del mercato monetario durante e dopo la guerra*, and *Note su la circolazione cartacea*, both Rome, 1920, and *Memorie riguardanti la circolazione e il mercato monetario*, Rome, 1925. A succinct summary of Italian *Bankwesen* is given by Professor Marco Fanno in Volume II of the *Handwörterbuch der Staatswissenschaften*, 4th edition, Jena, 1924; and with it may be cited the monograph of E. Wilmersdoerffer, *Währungsfall und Währungsreform in Italien von 1886 bis 1910*, Munich, 1923. (Vol. 165 of *Schriften des Vereins für Sozialpolitik*.)

[2] Of which the greatest—indeed, the largest bank of any sort in Italy—is the National Deposit and Loan Bank (Cassa dei Depositi e Prestiti) without capital, but controlling the investment of Postal Savings deposits and other public funds, a good description of which is to be found in the work of De Santis, mentioned in the preceding note, Vol. II, pp. 328–40.

[3] The adoption of foreign experiences in organizing these popular and co-operative banks owes a good deal to the initiative of the economist Luzzatti in the case of the *banche popolari*, and to the encouragement of the former finance minister, Senator Wollemborg, in the case of the *casse rurali*.

accustomed to keep their reserves on deposit at small interest rates in the chief financial centers of the country, of which Milan stood far above the others, with Rome, Genoa, Naples, Turin, and Venice as alternative money markets. The four principal banks before the war were the Banca Commerciale Italiana (founded 1894); Credito Italiano (1895); Banco di Roma (1880); and the Banca Italiana di Sconto (1914). Their aggregate capital, amounting to 350 million lire in 1914, exceeded 1,100 million by 1922.[4]

Whereas, before the war, these four banks nad been in rather sharp competition with branches closely shadowing each other, the pressure of industry and public credit requirements during the great struggle gradually brought the four into a less sharply competitive position. This development terminated even before the end of the war in an agreement (June 30, 1918) whereby common policies were to be adopted in the rationing and disposal of credit as well as in other important respects. Naturally these developments aroused a great deal of criticism and it was said at the time that the great leaders of industry acquired entire control of the banking system of the country.[5]

Through these four banks, the great industrial leaders could exercise more influence over the affairs of the ordinary local banks, and over many of the co-operative and savings institutions. They were not, however, able to secure control of the three banks of issue which stood out in a striking way during this period as protectors of the public interest.

The Sconto bank failure of 1921 was the greatest banking catastrophe since the war. The year 1921 witnessed a disastrous development which shook the whole structure of Italian banking from top to bottom, and perhaps did as much as any-

[4] The combined capital of the first three, and of the successor to the fourth, the *Banca Nazionale di Credito*, amounted to 1,600 million lire by the end of 1925.

[5] In addition to recent general discussions of the banking situation in Italy, see with particular reference to conditions betweem 1918 and 1922, P. Sraffa, "The Bank Crisis in Italy," *Economic Journal*, 1922, p. 178 ff.; L. Caselli "Evils of Bank Control of Italian Industry," the *Annalist*, New York, November 13, 1925, p. 607.

thing to prepare the popular mind for a reorganization of the political system. The Banca Italiana di Sconto, the youngest of the great banks, came to an untimely end. This bank, founded in 1914 by a few Italian and French financiers, rapidly increased its capital until it reached 315 million lire by 1920, by which time it had 220 branches at home and abroad, and an interest in four foreign subsidiary banks. Its branches had been individual local banks, and had been absorbed too rapidly for careful digestion into a single efficient system. Before the end of the War, the Banca Italiana di Sconto had passed under control of munition manufacturing and other companies. At the head of these stood a single corporation employing at that time some 70,000 workmen and having a capital which had risen to the huge total of 500 million lire, four-fifths issued in the year 1918 at a premium. The attempt of the controlling interests of the Banca Italiana di Sconto to secure substantial control of at least one other of the big banks, although twice repeated, was not successful, and in spite of the advances which the banks of issue gave the Banca Italiana di Sconto (amounting to 1,700 million lire when on December 29, 1921, the bank collapsed) nothing could cure the condition of the bank.[6]

At the end of November, 1921, the three banks of issue and the three other large banks, in line with experiences of the periods of currency crisis a generation earlier, created a consortium which undertook to provide 600 million lire in credits whereby the Banca Italiana di Sconto's accounts for its industrial debtors could be gradually liquidated or distributed among the other banks of the country. Within a few weeks, it became clear that it would be necessary to have no less than 2,000 million lire in order to carry the Banca Italiana di Sconto through; and it was reluctantly decided to allow the institution to become insolvent,

[6] Devices so extraordinary as the following were resorted to in a desperate effort to head off failure: The bank took government securities, paying ½ of 1 per cent, or 1 per cent commission per annum to the loaning public on condition that the securities be left with them for as long as a month. The bank then used the loaned securities as collateral with the banks of issue at the regular bank rate of 6 per cent.

henceforward dragging its way through a weary process of liquidation in consequence of which the half million creditors of the bank have been very slowly recovering their money. The effect of this insolvency would have been more disastrous than was actually the case, but for the heroic efforts of the Bank of Italy to prevent a panic. Over 4,000 million lire were issued either in the form of additional bank notes or extensive advances and discounts. Half a dozen minor banks were destroyed in the general melee and for a time it looked as if many other powerful banks in the country might come to grief. It was many months before the country had recovered from the shock of these events and it will be much longer before the episode is forgotten.

The situation of the banks at the close of 1925 was probably more wholesome than it had been at any time since before the war. Unfortunate conditions still exist, to be sure, and the banking legislation leaves much to be desired, its enforcement still more. Insofar, however, as the control of industry over the great banks, and through them, over most of the banks of the country is concerned, the situation differs little from what it was in 1919–21. The rôle of the banks in the economic life of the country has not changed in any important respect.[7]

[7] Sharp criticism still appears to be directed against the policies of the great commercial banks. The article of Caselli, cited in note 5, page 501, goes into detail in this connection. He challenges the value of the services rendered by the banks, and particularly the great banks, to the country's industry and commerce, pointing out that in Italy every standard activity is divided and sub-divided almost infinitesimally from manufacturing through the retailing process. He describes the net work of branches, agencies, and correspondents which the banks have built up. They have passed the point where they solicit only current accounts and savings. Every large bank has in circulation thousands of circular checks paid for at the time of issue, not presentable for payment for one day or longer as the case may be. Deposits in savings banks are withdrawable at any branch, but special accounts are accepted withdrawable only on fixed dates. Bonds and guaranteed stocks are accepted for deposit, the depositary bank acquiring the right to redeposit them with the bank of issue in return for liquid funds. The purchase of securities for investment purposes is an important part of banking operations. Anticipations of funds of merchants

There is a dearth of commercial paper in which banks might trade. This is one of the reasons why they furnish credit to industrial companies and sometimes act almost in the capacity of stock-broking agents, selling industrial shares after the fashion of promoters. Thus the great volume of their own deposits is liable to be tied up in highly profitable enterprises which are not, however, readily convertible into cash. The banks get generous returns from these operations which some agency after all has to undertake if industry is to be promoted on a large scale. The larger the bank, the greater likelihood of its subjection to the exigencies of its industrial clients whose deposits form such a large part of its liabilities and whose borrowing and related transactions constitute a bulk of its assets. As has been pointed out by competent observers, one of the great dangers of this situation lies in the fact that the government is obliged to resort to inflation of the currency when the banks find themselves in a tight place. The knowledge generally existing of the Government's ability to resort to inflation is declared to make bankers less careful, on the one hand, and, on the other, the public less confident that the guarantees of the currency will resist the dangerous assault to which they are liable upon short notice.

The Government and the banks of issue have been hard put to it in order to steer the safe course between Spartan indiffer-

are largely resorted to for import and export transactions; they permit the banks to have a great deal to say as to who shall transact business and under what conditions, because by demanding payment of other businesses the banks can compel obedience. Caselli alleges that the banks frequently oblige their clients to take "open" positions which are highly speculative in character and lead occasionally to disaster. He classified the episode of the late spring of 1925 as attributable largely to this policy of the banks. These "open" risks contributed in a great degree to the large decline of the lire in June and July, 1925, when the speculators were obliged to liquidate their holdings. The exporters, in such cases, throw their holdings of foreign exchange on the market in return for forward exchange contracts with the banks, which make large profits by lending foreign currencies thus acquired to the importers who are caught "short." Caselli remarks, without indicating the basis of his observation, that the destruction of the Sconto bank was regrettable because it had begun to have some success in making merchants really depend upon their own initiative.

ence to the indiscriminate slaughter of industry and excessive compliance with the demands of groups whose members, after all, knew what they were about when they launched on this or that grandiose venture for which they later had to seek succor. The story of the Consortium for Loans on Industrial Securities, when it is complete, will be well worth writing as a case of the difficulties which attend the application in actual practice of economic principles to problems involving large public and private interests.

The *Consorzio per Sovvenzioni su Valori Industriali* was established in order to facilitate war-time financing of companies engaged in essential industry. Like the War Finance Corporation in the United States it lingered on, long after the war, tenaciously clinging to the breath of bureaucratic life. Things were found for it to do, among others and principally, to absorb the shock of failure of the Banca Italiana di Sconto and the others which followed.

There was some apprehension lest the Consorzio should become a part of a magical carpet of inflation, so that on September 27, 1923, the government decreed that its banking section should cease to initiate business after December 31, 1930, and should have disposed of all its holdings within two years thereafter. But even this did not revive confidence sufficiently in the early liquidation of the consortium, with the result that on January 1, 1924, the government ordered that no further commitments be taken. At the time of this order there were industrial loans outstanding exceeding 5,700 million lire, and the section charged with the liquidation of all the "frozen credits" of the defunct banks — the "banking refuse" in the picturesque language of Senator Ancona — had still some 3,300 millions of paper on its hands.

The head of the Bank of Italy, in his report of March 28, 1924, expressed the hope that, little by little, this dubious collateral, against which he had had to issue notes, would be liquidated. But in point of fact several hundred million lire more were advanced during 1924. At the end of that year the decision

was reached to allow the issue of interest-bearing bonds by the Consortium's banking section, as a means of relieving the banks of issue.[8] But at the end of 1925, the consortium was still pursuing its laborious course, and the Director General of the Bank of Italy felt that there was still a prospect that the mass of paper would come to a good end.[9] Writing in the spring of 1926, Director General Stringher stated that the unrealized and uncovered assets of the Consortium amounted to but 1,874 million lire.[10] Finally, in the program of currency reform inaugurated in September, 1926, provision was made for the absorption of the reserves of the consortium, — then some 1,400 million lire, — in those of the Bank of Italy, while the unrealized paper outstanding (fallen by that time to 1,750 millions) would simply be incorporated in the ordinary portfolio of the Bank of Italy. This program was to take effect definitely before the end of 1926. It is quite possible that ultimately the irreducible minimum of loss will be quite small.

II. SOME REFERENCES TO EXCHANGE DISCUSSIONS

With regard to exchange problems in general, and during the war period in particular, reference may first be made to the studies of Stringher cited above, p. 499, note 1, and the yearbooks of Professors Bachi and Mortara. In addition, see Gino Arias, *Principii di economia commerciale*, Milan, 1917, pp. 485–596; *Sulla svalutazione legale della lira*, a symposium published by *L'Economista*, Rome, in April, 1922, and as a reprint, not-

[8] See Mortara, *Prospettive economiche*, 1925, p. 417. For details on the Consorzio, see the respective annual reports of the Bank of Italy, and Director General Stringher's comment in his *Memorie riguardanti la circolazione e il mercato monetario*, Rome, 1925, p. 69 ff. See *Economic Review*, London, February 2, and March 21, 1924, as to debates on government's banking policy with special reference to failure of the *Banca Italiana di Crediti e Valori* with some millions of deposits and 20,000 customers.

[9] See Annual Report of the Bank of Italy for 1925. On December 31, 1925, the credit to the Consortium stood at 3521 millions; and on March 31, 1926, at 3452 millions.

[10] *Times Trade and Engineering Supplement*, London, June 19, 1926, p. 26.

ably the contribution of Professor Gini; Professor Achille Loria, *Le peripetie monetarie durante la guerra*, Bologna, 1920, and "Le peripetie monetarie del dopo guerra" in *Annali di economia*, Volume I, Milan, 1924; R. Dalla Volta, *La crisi dei cambi*, Florence, 1925; K. M. Obenaus, *Die italienischen Wechselkurse während der Jahre 1914–19*, Köln, 1922; Professor A. Cabiati, in *Annali di economia*, II, 1925, p. 183 ff

The discussion of the course of the exchanges is so voluminous that only articles which furnish a résumé thereof, from time to time, can be cited. The files of the *Rivista bancaria*, *Rivista di politica economica*, *Economia*, *Giornale degli economisti*, *Riforma sociale*, and other journals, contain noteworthy articles, some expository and others controversial; while the commercial and financial columns of the *Corriere Mercantile*, Genoa, *Corriere della Sera* and *Il Sole*, Milan, as well as other papers, might well be consulted for authoritative comment. Readers in the United States may find the following references generally accessible.

On the measure taken by the Minister of Finance in February–May, 1925, to control the operation of the stock exchanges and particularly such consequences as stock speculation might have upon the lira, see Bachi and others in *Wirtschaftsdienst*, 1925, January 16, p. 98; January 30, p. 177; March 6, p. 375; March 20, p. 541; May 29, p. 842; June 26, p. 978; and especially August 7, p. 1216; and in 1926, April 23, p. 536; and June 18, p. 823. Italian correspondence of the *Economist*, London, April 12, 1924, p. 787; June 28, 1924, p. 1304; March 14, 1925, p. 502; April 4, 1925, p. 657; *Annalist*, New York, February 2, 1925, p. 189; and May 11, 1925, p. 647; and notably the articles of L. Caselli, September 4, 1925, p. 311, and August 6, 1926, p. 172; Romolo Angelone in *Economic World*, New York, June 20, 1924; *Economic Review*, London, April 10, and August 7, 1925, p. 316 and 116; the *Statist*, London, August 22, 1925, p. 275; Dr. G. Zuccoli in *Acceptance Bulletin*, New York, August and November, 1925; Dr. R. Kerschagl in *Zeitschrift für Volkswirtschaft und Sozialpolitik*, Vienna, 1926, V, no. 7–9; and Manchester *Guardian Commercial* Banking Supplement, July 29, 1926. On the operation of the Italian Stock Exchanges, from both the legal and the financial

point of view, see G. Drouets *L'organisation et le fonctionnement des bourses de valeurs en Italie,* Paris, 1924.

Summary of provisions authorized by the Italian Cabinet, August 31, 1926, with respect to the currency.[11] The measures referred to on page 196 provide principally as follows:

1. As of September 1, the Treasury transfers to the Bank of Italy $90,000,000, namely the total proceeds of the loan contracted in New York, November 18, 1925; in consideration of this transfer, the Bank of Italy cancels its credit of 2,500 million lire on account of the State and assimilates the gold reserves against these lire to the gold reserves against its own bank notes. Consequently, the circulation on account of the State, amounting to 6,729.5 million lire on July 31, 1926, falls to 4,229.5 million lire, and the gold reserves of the Bank of Italy are increased by 455 million lire gold, amounting, therefore, to 2,400 million gold lire.

2. Hereafter, in the estimates for the Ministry of Finance, provision shall be made for a sum amounting each year to at least 500 million lire to be paid to the Bank of Italy in order that the fiduciary circulation on account of the State may gradually be diminished; this measure is to take effect during the current fiscal year and to continue in effect until the complete extinction of the government's debt to the Bank.

3. Treasury currency amounting as of July 31, 1926, to 2,100 million lire shall be reduced by 400 millions through the withdrawal and destruction without replacement of the notes of the denomination of 25 lire. The rest of the Treasury currency, namely, the notes of 5 and 10 lire shall be withdrawn from circulation beginning in October, 1926, being replaced by silver coins of 5 and 10 lire.[12]

[11] Taken from *Il Popolo d'Italia,* Milan, September 1, 1926.

[12] By virtue of a decree of September 9, 1926, the Treasury turned over to the Royal Mint the entire fund of silver coins of 1 and 2 lire each withdrawn from circulation in 1917 and having an aggregate nominal value, as of July 31, 1926, of about 195 million lire. The paper notes of 5 and 10 lire cease to have legal tender value after June 30, 1927; the notes of 25 lire lose legal tender standing after December 31, 1926.

TABLE I

Italian Note Issues, 1913–1926
(In millions of lire)

December 31	Bank Notes				Treasury Currency	Total
	For account of the State	For account of the Consortium Loans on industrial Securities	For account of the Banks of Issue	Total		
1913 . . .	....	....	2,284	2,284	499	2,783
1914 . . .	735	....	2,201	2,936	657	3,593
1915 . . .	2,069	....	1,899	3,968	1,082	5,050
1916 . . .	2,557	....	2,592	5,012	1,318	6,330
1917 . . .	5,833	....	2,592	8,425	1,748	10,173
1918 . . .	7,165	....	4,585	11,750	2,124	13,874
1919 . . .	10,630	....	5,651	16,281	2,270	18,551
1920 . . .	10,743	....	8,988	19,731	2,268	22,000
1921 . . .	8,505	....	10,704	19,209	2,267	21,476
1922 . . .	8,077	899	9,036	18,012	2,267	20,279
1923 . . .	7,754	3,162	6,330	17,247	2,428	19,675
1924 . . .	7,243	4,082	6,789	18,114	2,400	20,514
1925 . . .	7,062	3,521	8,766	19,350	2,100	21,450
1926 [a] . . .	6,730	3,421	8,193	18,343	2,100	20,443

[a] June 30.

TABLE II

RESERVES OF THE BANKS OF ISSUE*
(In millions of lire)

DECEMBER 31	GOLD	SILVER	TOTAL	CERTIFICATES OF GOLD DEPOSITED ABROAD	FOREIGN BILLS IN GOLD CURRENCIES	TOTAL RESERVES
1915[a]	1,428.3	141.2	1,569.5	...	89.2	1,658.7
1915	1,364.1	127.6	1,491.7	73.7	134.3	1,699.7
1916	1,157.5	112.6	1,270.1	302.5	163.6	1,736.2
1917	1,071.1	127.1	1,198.2	403.6	189.8	1,791.6
1918	1,048.7	116.8	1,165.5	429.6	740.8	2,335.9
1919	1,036.7	114.8	1,151.5	439.6	438.8	2,044.9
1920	1,058.8	114.7	1,173.5	419.6	484.7	2,077.8
1921	1,091.9	114.1	1,206.0	419.6	373.1	1,998.7
1922	1,125.8	115.5	1,241.3	419.6	380.6	2,041.5
1923	1,117.6	125.0	1,242.6	419.6	185.2	1,847.4
1924	1,131.5	124.0	1,255.5	419.6	150.9	1,826.0
1925	1,133.8	124.6	1,258.4	419.0	363.4	2,040.8
1926[a]	1,135.6	125.2	1,260.8	419.0	297.4	1,977.4

* Stringher, *Memorie riguardanti la circolazione e il mercato monetario*, Rome, 1925, p. 16, for all except last two dates, which are taken from *Gazzetta ufficiale*.
[a] June 30.

TABLE III

INDEX NUMBERS

ANNUAL AVERAGES	WHOLESALE PRICES BACHI 1913 = 100	WHOLESALE PRICES, MILAN CHAMBER OF COMMERCE 1913 = 100	PURCHASING POWER OF 100 LIRE, MILAN CHAMBER OF COMMERCE 1913 = 100	RETAIL PRICES GENERAL LABOR OFFICE, 21 ESSENTIAL COMMODITIES 1913 = 100
1913	100	100	100	...
1914	95	...	...	94
1915	133	...	...	114
1916	200	...	...	125
1917	305	...	...	162
1918	409	...	...	239
1919	366	...	...	...
1920	624	...	....	452
1921	578	517[b]	19.4	501
1922	562	529	18.8	527
1923	575	536	18.7	518
1924	585	554	18.1	538
1925	690	646	15.5	605
1926[a]	700	648	15.4	644

[a] First six months of 1926. [b] Last five months.

BACHI INDICES OF THE RELATION BETWEEN DOMESTIC AND FOREIGN PRICES, 1914–1924

	DOMESTIC PRICES (100 = 1901–1905)	RATIO BETWEEN INTERNAL AND EXTERNAL PRICES[a]
June, 1914	117.0	99.2
Dec., 1914	119.7	109.0
June, 1915	161.3	103.6
Dec , 1915	214.8	94.5
June, 1916	242.8	95.1
Dec., 1916	294.6	97.9
June, 1917	362.9	95.3
Dec., 1917	459.3	90.1
June, 1918	523.5	91.8
Dec., 1918	469.9	70.8
June, 1919	451.0	92.3
Dec., 1919	576.2	115.3
June, 1920	796.0	119.4
Dec., 1920	825.8	129.3
June, 1921	641.1	102.4
Dec., 1921	749.2	98.5
June, 1922	677.0	104.5
Dec., 1922	730.3	96.2
June, 1923	716.8	114.3
Dec., 1923	727.3	116.3
June, 1924	713.3	114.1

* See Commission of Gold and Silver Inquiry, *European Currency and Finance*, Vol. I, Washington, 1925, p. 176.

[a] Derived by dividing British price index as based on appreciation of the pound in Italy by Italian price index.

APPENDIX G

THE PRESENT ECONOMIC STATUS OF ITALY

The following study was prepared by Professor Corrado Gini as one of the memoranda in connection with the negotiations for the funding of Italy's foreign public debt. Professor Gini, then at the University of Padua, was called in December, 1925, to occupy the Chair of Economic Policy and Statistics at the University of Rome, in the new Faculty of Political and Social Sciences to which is attached the Institute of Statistics and Economic Policy. Recently Professor Gini has been appointed to the Presidency of the Central Institute of Statistics of the Kingdom of Italy. At the request of Professor Gini, the author of this volume revised and completed the English translation of the text. He ventures to include all of the text of Professor Gini's study, except a few paragraphs, in the present volume, because of its value as an economic diagnosis of contemporary Italy. The 85 statistical tables upon which the study rested in large part have not been reproduced here. The concluding pages of the memorandum have also been omitted. They contain a brief résumé, of considerable interest, of the outstanding requirements for capital investment in Italy, but since they are concerned rather with future possibilities than with the diagnosis of actual conditions and tendencies in 1925, they lie less directly within the scope of the volume. Professor Gini expects to publish in *Metron*, of which he is the editor, the full collection of statistical material employed in the study, after it has been brought down through 1926.

I. Consumption
II. Savings
III. Production
IV. Transfers and Traffic
V. Wages
VI. Income from Capital
VII. The Liberal Professions
VIII. Employers
IX. Recurrent Abnormalities
X. High Cost of Living
XI. The Disequilibrium of the Exchanges
XII. The Causes of Economic Disequilibrium
XIII. International Values of Wealth and Income
XIV. The Prospect for the Future

A review of the monthly index numbers of Italy's economic life since the war, indicates four distinct phases.[1] During the first phase, Italy's powers of resistance were put to the severest test amid adverse conditions of world crisis and the cessation of interallied financial co-operation; in the second phase, she was busy clearing up the most threatening of her home problems; in the third and fourth, she at last resumed, not without contest and mishaps, the upward path towards a state of equilibrium.

Can Italy be considered to have attained this equilibrium? The annual indices of the essential phenomena of Italian economic life (population, consumption, savings, production, exchange, trade), which we are about to examine, furnish the answer to this question.

It should be noted that, when we pass from the monthly to the yearly indices, we have the advantage of being able to determine the volume of agricultural production and of certain branches of industrial output, the two outstanding factors in national economy, as well as that of food consumption.

I. CONSUMPTION

Food consumption may be regarded as furnishing the most important of our indices, the one, in fact, which constitutes the synthesis of the complex economic situation of a people.

[1] Reference is made here to a study entitled *Index Numbers of the Economic Life of Italy in the Post-war Period*, prepared by Professor Pietra for the same collection of official memoranda as the study of Professor Gini. This material, considerably expanded, was later published in the *Indici del Movimento Economico Italiano* issued quarterly by a representative committee of scholars, under the auspices of the Universities of Rome and Padua.

The inquiries carried out during the war by the Inter-Allied Scientific Food Commission threw light on the state of insufficient nourishment in which large groups of the Italian population lived even before the war. While physiologists agree that a daily food ration of about 3300 net calories is necessary to an adult man, working 8 hours daily, in a European continental climate, it was found by the Commission that the average consumption of an Italian contained barely 3130 calories,[2] excluding, as is appropriate, alcoholic beverages. Private students have, obtained even lower figures than the above: Vinci: 3066; Zingali: 3119; Balestrieri (1910–14): 3065.[3] The fact that the latitude of Italy is lower than that of the greater part of Continental Europe, is compensated, as was demonstrated by the Commission,[4] by the mountainous nature of the land, by insufficient domestic heating in the cold season, and more especially by the longer hours of work, both on farms (owing to the longer duration of the solar day), and in public and private employment. As against this daily ration of 3130 calories for Italy, there was found, in reference to Germany, England, and France, a ration of 4050, 3704, and 3644 calories respectively.

The food ration, which, during the war, had substantially declined for the civil population, has been increasing during the post-war period, having again reached in 1922 the pre-war level and even having slightly exceeded it, with 3141 calories; but after that year it declined, and for 1924 it appears to be notably

[2] Commission Scientifique Interalliée du Ravitaillement: Rapport général, *Les ressources et les besoins alimentaires des pays alliés*, Paris, 1918, p. 20.

[3] See F. Vinci, "Sulle Variazioni dei prezzi," *Rivista delle Società Commerciali*, April, 1919; G. Zingali, *La bilancia alimentare prebellica, bellica, e post-bellica di alcuni Stati d'Europa*, Memorandum presented at the XVI Session of the International Statistical Institute, September–October, 1925. M. Balestrieri, *I consumi alimentari della popolazione italiana dal 1910 al 1921*, Padua, 1925 pp. 30–31; also Zingali: *The Standard of Life and Food Consumption in Italy*, one of the memoranda prepared in connection with the debt funding negotiations.

[4] See Gini, *Problemi sociologici della guerra*, Bologna, 1921, p. 155 ff.

less than before the war. The ration was deficient not only in the total number of calories, but also in the quality of its ingredients, which contain an insufficient quantity of fats and proteins, and particularly of animal proteins. Even from this last point of view the situation to-day as compared with the pre-war period has improved, inasmuch as the percentage of calories of animal origin on an average per capita turn out to be about 10 per cent higher. We must also take into account the changes which have taken place in the working conditions of the laboring classes, who are now subjected to a shorter period of activity — more intense while it lasts, however, than formerly — under the eight-hour system; and who, consequently, have a greater need than formerly of animal proteins. But even from this point of view the last few years reveal less favorable conditions, inasmuch as the average quantity of calories of animal origin per capita has diminished.

The consumption of meat per capita has likewise diminished in the big cities: (1922: kg. 46.3; 1923: kg. 42.3; 1924: kg. 42.1) notwithstanding larger imports of frozen meat, whereby a cheaper article has been substituted for the more expensive fresh meat formerly eaten.

The Italian people, which, in the period before the war, consumed frozen meat to a very slight extent, adapted themselves unwillingly, during and just after the war, to the use of this food so little in harmony with their tastes. As soon as the critical moment had passed, the consumption of frozen meat began to diminish, but resort had again to be made to it under the pressure of high prices of fresh meat, on the one hand, and, on the other, under that of the necessity of maintaining a diet in harmony with the physiological requirements of a more intense activity.

To sum up: the indices of food consumption prove that the Italian people, who, even before the war, were not abundantly nourished from the physiological standpoint, have been compelled to reduce still further their consumption of food, and in the last two years have been in a situation constantly less favorable; yet, in order to adapt themselves to the requirements of

new labor conditions, they have had to accept a diet not in accordance with their tastes.

While, in accordance with the correct practice of physiologists, we did not include alcoholic beverages among foods, we do not intend to overlook this item, as it furnishes an index of the non-essential consumption of a people. The consumption of wine is smaller than before the war. During the four years 1921–1924, as compared with the five years 1909–1913, the diminution is found to represent 10 per cent; but, if we take into account the increase of population (16 per cent), this indicates an actual fall in the consumption per capita amounting to 22 per cent. The consumption of beer has increased (index number for 1921–22 to 1924–25: 178 per cent, taking as a base the period 1911–13), but certainly not to an extent sufficient to compensate the difference. Taking both wine and beer into account, the consumption of the last four years represents but 92 per cent of the pre-war consumption. Allowing for the growth of population, we note a decrease per capita of 20 per cent. This is all the more noteworthy in view of the known difficulties experienced by Italy in recent years in marketing her wine, consequent on the restrictive or prohibitive measures adopted in certain countries. Overcoming these difficulties, Italy has succeeded, in the last year or so, with a normal harvest, in exporting 83 per cent more than she used to export before the war.

One non-essential consumption which shows an increase is that of tobacco. This increase, which consists chiefly in cigarettes, is evidently a result of habits contracted by soldiers during the war. It is remarkable, however, that, taking into account the increase of population, the last years reveal, as compared with 1921–22, not an increase, but actually a decrease of consumption. As a matter of fact, the index number of the average consumption per capita was 138 for 1921–22, and has gradually descended to 133 in 1924–25. We find the same results in regard to coffee imports, which give a good index of the consumption of this commodity. The same is true of the production of pure alcohol, which gives a correct index of liqueur

consumption; eliminating the increase of population since 1911–13, the per-capita index number is found to be 123.3 for 1921–22; 121.1 for 1922–23, and 120.7 for 1923–24.

II. SAVINGS

Data are available on savings deposits, on savings in current accounts and in interest-bearing bonds which cover practically all the banks of any importance from this point of view, and afford an index to the rapid accumulation of liquid savings. The increase shown by these index numbers, especially during the last years, fails however to bring them up to the pre-war level when we take into account the rise in prices of commodities. The index number of savings in 1925 is, in fact, equal to 513 per cent, taking 1913 as a base; while that of the increase in prices is equal to 650 per cent. The former is therefore lower than the latter by 21.1 per cent; but this difference grows wider when we take the increment of population into account (12.4 per cent).

Taking this augmentation in population into account, we find that the savings of the population per capita are 29 per cent below the pre-war figures.

A rather favorable impression of Italy's saving capacity has been, and is now formed upon the basis of statistics relative to the capital investment and retirement of our stock companies. From the beginning of 1914 to July, 1925, share capital has risen from 5,390 million lire to 32,600 millions, showing an increase of 648 per cent, a change about equal to that of the rise in wholesale prices. As a matter of fact, if we were to value the property of these Companies at the present prices, the increase would be found to be very much bigger, because, except where the stock has been watered, the value attributed to such property is the same as that assessed at the date when the Company was formed. At what figure should we assess the present gold value of the capital of Italian share companies? The Research Office of the *Credito Italiano* has carried on an inquiry along this line,

and has reached the conclusion that the gold value of the total capitalization, valued at 5,170 million lire at the end of 1913, had risen, on June 30, 1923, to a value of 12,065 millions,[5] thus showing an increase of 132 per cent. This progress is seen to have been particularly rapid since June, 1923: 1,116 millions in the second half of 1923 (equivalent to 253 million gold francs); close to 4,913 millions in 1924 (equivalent to 1,110 million gold francs); 4,477 millions in the first half of 1925 (equivalent to 941 million gold francs). On July 1, 1925, share capital is seen to have risen to a total of 14,369 million gold francs, thus registering an increase over January, 1914, of 178 per cent. We should find a considerable difference in the result if, instead of reducing the lire to gold francs at the exchange rate, we reduce them on the basis of the index of wholesale prices so as to obtain lire having the purchasing power of the pre-war period (hypothesis A). By this method of computation, the share capital would be assessed on July 1, 1925, at a value of 10,840 millions, thus registering an increase, as compared with January 1, 1914, of 101 per cent (5,390 millions).[6]

These misleading results, unfortunately, are based on a method of computation whereby we reduce to gold francs or pre-war lire, not only — as is correct — the new investments, but also the amounts of withdrawals, which are still partly derived (and for a certain period were undoubtedly all derived) from companies formed when the lira was at par or but little depreciated. If we adopt the extreme hypothesis that all cases of withdrawals of capital that have occurred related to companies established when the lira was at par, and if the sums so invested were reduced to pre-war lire on the basis of the price level (hypothesis B), we would come out at the result that on July 1, 1925, the aggregate share capitalization, instead of having increased five and

[5] See Credito Italiano, *Società italiane per azioni: Notizie statistiche*, 1922, ninth edition, p. ix.

[6] The Credito Italiano based its computations on a figure of 5,170 millions. The data on which we have based ours are slightly different, and are taken from the Ministry of National Economy up to the end of 1921; subsequently, from the Association of Italian Corporations.

a half billion, would have shrunk more than one billion, that is, would have diminished since January 1, 1914, by 20 per cent.

But this calculation might conceivably err in the direction opposite to that of hypothesis A, since the companies which have been liquidated or which are reducing their capital outstanding can very well have been established at times when the lira had already depreciated.

We shall be fairly halfway between these two extreme hypotheses, but perhaps tending, in my view, to approach the more optimistic of the two, if we assume companies which are winding up their business, or reducing their capital, are not to be sought among those formed during the current, or immediately preceding year, but rather among those constituted in earlier years, and among them, in equal proportions. On this hypothesis, which conceivably leans toward optimism, as we have said, we may estimate that the 32,160 millions of capital existing on July 1, 1925, are equivalent to 8,830 millions pre-war lire, with an increase of 3,440 millions, equivalent to 63.8 per cent, over the 5,390 millions of January 1, 1914.[7]

Taking the growth of population into account, the effective increment of Italian share companies, expressed in pre-war lire, amounts to 45 per cent. But what portion of this increase is derived from genuine savings? As a matter of fact, along with new investments are included apparent increases in capitalization due to stock dividends or bonuses to old stockholders. Moreover, as time goes on, that part of the capital of a company that is invested in the securities of other companies tends to increase. And it is to be recalled also that fairly frequently the establishment of new companies, or increase in the capitalization of companies already established, represents, in whole or in part,

[7] In an article published just a few days after we had written these pages, Professor Einaudi stated that he would much be surprised if the thirty-three billions of share capital outstanding June 30, 1925, were not at least equal to some ten billions of pre-war lire (*Corriere della Sera*, August 12, 1925). Our text shows how excessively optimistic his impression is.

changes of business establishments, such as firms and partnerships, into corporate form.

It is therefore extremely difficult to be sure what portion of this increase of three and one-half billion lire represents an actual growth of savings, but it seems certain in any case that the real value of the aggregate capital invested in stock companies has increased, on account of actual savings, more than the population. If from the savings deposits and deposits on current account and in interest bearing bonds, we deduct the deposits in the Postal Savings Banks, we obtain the amount of deposits which furnish the circulating medium of the country. Its real amount per capita has diminished, as compared with pre-war times, by almost 20 per cent, while the real value of the aggregate capital of stock companies, — a good index of the fixed capital of industry — has increased. Thence, the present scarcity of circulating medium and the necessity of borrowing abroad.

III. PRODUCTION

The data relating to production are particularly significant. The results of elaborate calculations made by Professor Zingali with respect to agricultural production (20 representative items), the production of our quarries, mines, and peat-bogs, and lastly, our metallurgical and mineral output, allow us to determine the index numbers of production during several years, taking as the basis the production of 1913 = 100. Since 1913 was a particularly prosperous year for Italian farmers, the calculation of the index number of agricultural production was made a second time, taking as the basis the 5-year period 1909–13. For each branch of production, the calculation has been made first by weighting the several products on the basis of the 1913 prices, and then weighting them on the basis of the prices of 1924. There is no essential difference between the results given by these two methods.

They show us that in 1924, as compared with 1913, our metallurgical and mineral production increased by about 29 per cent;

that of our quarries decreased by about 15 per cent; that of our mines and peat-bogs declined no less than 6 per cent; that of agriculture decreased to the extent of about 3 per cent. When we take into account the growth of population (13.8 per cent) we note that the increment in the metallurgical and mineral output is reduced to 13 per cent; the decrease in the production of our quarries reaches 26 per cent; that of the mines and peat-bogs, 16 per cent; and that of agriculture, 15 per cent.

If we take the five-year period, 1909–13, as the basis for agricultural production, instead of 1913, we obtain about 104 per cent as the index number for 1924, a result therefore higher than that of the base period. But allowing for the growth of population (16 per cent), since the basic years, we find that the agricultural production per capita is 10 per cent lower than that of 1909–13.

Since 1919, there has been a great increase in the production of agriculture, quarries, mines, and peat-bogs, and since 1921, in that of the metallurgical and mineralogical plants, which had sunk to between one-half and three-fourths of the pre-war level; but in none of these essential branches of national production, except in metallurgy and minerals, has the pre-war production per capita been reached.

Taking the aggregate figures of production in the various branches above mentioned, we obtain a synthetic index of the state of Italian production. In 1919 it had fallen to 78 per cent of the pre-war level; after six years' effort it has reached about 98.5 per cent thereof; taking into account the growth of population, the index number falls to about 86 per cent.

This calculation, nevertheless, is open to criticism from the theoretical point of view. As a matter of fact, it signifies a double set of computations, inasmuch as the value of the product of the mines is included a second time in the value of the product of the plant; and the value of the tool or agricultural machine which the factory puts out represents, in turn, a contribution to the value of the product of the fields. On the other hand, the importance of the consumption of raw materials, fuel,

machinery, tools, and other such products varies in a considerable degree from one type of production to another. The calculation could be ventured that in Italy the participation of these things represents roughly 15 per cent of the production of mines, quarries, and peat-bogs; 24 per cent of agricultural production; and 56 per cent for mineralogical and metallurgical production.

If, on the basis of coefficients such as these, we reduce the production of these respective branches, we determine the amount whereby each of them increases the aggregate of wealth. The totals thus arrived at and the corresponding index numbers do not differ essentially from the more inclusive totals and indices mentioned above. The varieties of production, which we have been considering, contributed to the aggregate national income — which, for the year 1924, may be estimated at about 100 billion lire — something like 30 billion lire. Consequently, it is a distinctly substantial portion of the national income which these branches of production provide. In 1919, the national income stood at about 78 per cent of its level before the war; to-day, as an aggregate, the national income has almost regained the pre-war level, that is to say, with this index, about 98 per cent. But, on a per capita basis, and with due regard for the increase in the population, it stands only at about 86 per cent. These indices, however, are certainly under the truth, for they take account of almost all the mineral and metallurgical production, the increase of which was less, and only of a small part of the industrial production, the progress of which, as we shall presently see, was more rapid.

For certain branches of manufacturing industries, useful indices of production are furnished by the quantities of raw materials they consume. These quantities may be determined either from statistics of national production, plus imports and less exports; or, in the case of materials for which domestic production is negligible, from statistics of imports, less exports; or, finally, in the event that exportation is of minor importance, from the statistics of importation alone.

A comparison of the figures relating to metallurgical and mineral production, with those on stocks of iron ore and pig iron and semi-manufactured iron and steel, and crude and semi-manufactured copper, brass, bronze, indicates the striking extent to which these statistics reveal Italy's war-time effort, then the period of post-war crisis, which, in this group of industries, culminated in 1921, and, finally, the rapid improvement subsequent to that year.

Metallurgical and mineral production rose in 1921 to from 30 to 40 per cent above the normal pre-war level; in the same year the supplies of the iron industries attained 40 per cent, and those of the copper industries, 150 per cent above that level. In 1921, the metallurgical and mineral production was reduced to 55 or 65 per cent, and copper stocks disappeared. In 1924, the supplies of the iron industries amounted to 15 per cent above pre-war levels, and those in the copper lines were nearly 60 per cent higher than before the war.

One of our most important manufacturing activities is the textile industry. This industry does not seem to have made any noteworthy progress when its condition in 1924 is compared with its condition before the war.

Last year, imports of raw cotton barely attained the pre-war level (index for 1924 = 101 per cent, taking as a basis the period 1911–13); stocks of hemp available for the internal market appear during the last four years 1921–1924 to be less abundant than before the war (index number = 31 per cent); and, similarly, those of flax (index number for 1924 = 77 per cent). Stocks of wool increased (index for 1924 = 148 per cent); so also those of jute (index for 1924 = 121 per cent).

With respect to silk, a comparison between the figures of production, imports, and exports of raw silk leaves us in some perplexity, and raises a doubt whether the data for production are comparable with those of international trade. The value of the textile exports in 1924 increased only by 509 per cent, certainly less than the increase in prices. By adding up the quantities taken as basis in the computation of our index

numbers (cotton, wool, jute, flax, and hemp) and weighting them in accordance with the price levels of 1924, we obtain a synthetic index of the activity of a great part of our textile trade. The index number obtained for 1924, with the average of the years 1911–13 as the basis, is 105.35 per cent; thus the activity of this industry has increased, but not to an extent commensurate with the growth of population (index number, 115 per cent).

The production of raw silk, even in 1924, the most favorable since the outbreak of the war, does not appear to have increased (index number, 110.5 per cent, taking as a basis the period 1909–13), in the same ratio as the population (index number, 116.1 per cent).

Other industries have undoubtedly made greater progress; such as the rubber industry, for which the output in 1924, as compared with the pre-war period, presents an index number of 271 per cent taking as a basis the average for 1911–13; the hide and skin industry, in respect of which the excess of imports over exports (furs excluded) presents in 1924 an index number of 203 per cent. The net imports of cellulose, also, exceeded in 1924 the pre-war level, the increase (16.5 per cent), however, not much exceeding the increase in population (15 per cent). This increase is related to the recent development of the Italian artificial silk industry.

Viewed as a whole, there has been increased activity in Italian industry, of which a sure index may be found in the consumption of coal and other fossil fuels, petroleum, and electrical power. During 1924, we find, for the first time, a level higher than the pre-war one, in respect of coal and other home-produced or imported fossil fuels (index number, 113.1 per cent, taking as a basis the mean of 1911–13), the increase, however, being still below the increase of population (index number, 115 per cent). The increment in the consumption of electrical power is very much greater, the index number (for motor power) for 1923–24 as compared with 1913–14, being 267.1 per cent. The consumption of petroleum, benzine, etc., also shows considerable increase amounting to 249 per cent in 1924 as compared with

1911–13. The weighted average of the three index numbers[8] is found to be 146.4 per cent, which considerably exceeds that of the increase of population.

We are able to check and confirm the figures with reference to our consumption and production by a comparison between the several categories of imports and exports.

Before the war our imports exceeded our exports by 958 million lire in respect of raw materials for manufacture, 204 million lire in respect of semi-manufactured goods and fabricated goods, and 44 millions in respect of alimentary products and live animals. Since the war the excess in respect of the first category has risen to over 6,715 millions in 1924 and 895 in 1925, which represents about 877 millions and 2,456 millions respectively more than the increase estimated on the grounds of the increased price level which, in 1924, showed for raw materials an index number of 609 and in 1925, of 678 per cent;[9] in respect of the fourth category it has risen to 788 millions and 1,572 millions respectively, showing increases of about 594 and 1,347 millions over and above the conjectural increases on the ground of price increase (562 per cent in 1924 and 651 per cent in 1925); exports of semi-manufactured and finished products show an excess over imports of 2,439 millions in 1924, and 2,610 millions in 1925, which represents an excess of 3,464 and 3,871 millions, respectively, over and above the increases to be justified on the grounds of the higher price level, which may be estimated at 506 per cent in 1924, and 619 per cent in 1925.

In the aggregate, we find in the two years an import deficit which falls short by two billion lire of the excess which we might have expected, taking into consideration the rise in the

[8] Attributing to electrical power a weight equivalent to the tons of coal which it would take to generate, in the proportion of 1.2 kg. per kw. hour, and for petroleum, petrol, etc., a weight equivalent to the tonnage of coal required to generate the same heat, in the proportion of kg. 1.46 of coal to every kg. of petroleum.

[9] Compare: *Numeri indici dei prezzi sul mercato all'ingrosso dal Maggio 1921 al Settembre 1925*, published by the Chamber of Commerce and Industry of Milan.

price level. This comparison shows that Italy's population was growing much more rapidly than her agricultural production, and that she was compelled to increase her imports of alimentary products, even though the national standard of food consumption was still further lowered. On the other hand, she has had to develop her manufacture, so as to allow larger exports of semi-manufactured and of finished articles, and, as the home production of raw materials has not increased, she has had to import larger quantities of raw materials.

It is a striking fact that the increase in the importation of raw materials (3,334 millions in the two years) represents fully 45 per cent of the excess of exports of semi-manufactured and finished products (7,335 millions). The percentage is reduced to 43.5 per cent if, instead of adding the figures relating to the two years, we take account, as is correct, of the different price levels. Now an investigation of the General Confederation of Italian Industries shows the percentage of the value of the product that is represented by the raw materials to be 45. If we recall the fact that some of the industries examined in that investigation produce partly-fabricated goods, we shall feel authorized to accept the two percentages as practically coincident. Now, when we bear in mind the fact that the national production of raw materials has not increased, we may conclude that Italy has re-exported in the shape of semi-manufactured and finished products, all that she has been able to produce by means of an increase in importation, which leads to the conclusion that the quantities of finished products available in the country have not increased as a whole, and that the per capita available for consumption has therefore declined in like ratio to the increase of population, *i.e.*, by about 16 per cent. This conclusion finds confirmation, insofar as the consumption of cotton manufacture is concerned, in the figures of consumption of cotton articles, which from an average per capita of 3.5 kg. in the pre-war period, has fallen since the war, to little more than 2.5 kg.

IV. TRANSFERS AND TRAFFIC

The index of business obtained from the number of sales and interchanges of real property shows a remarkable increase, especially in the period immediately following the war. This advance may, to some extent, reflect a genuine intensification of economic activity. In part, however, it is merely the consequence of a process of readjustment following on the revolution in incomes which accompanied the war. As the result of this, numbers of impoverished persons, who had formerly been rich, were compelled to sell the whole or part of their real property, which thus passed into the hands of the new rich. To this extent the increase in the volume of transfers is indicative of an abnormal situation. But even insofar as it reflects a genuine increase of business, this is certainly in part due to the increase in prices and thus represents a transitory phase of the nation's economy, dependent on monetary, rather than on economic factors. In point of fact, the highest level of the index number (139.2 per cent, taking as a basis the fiscal year 1913–14), is reached in 1920–21, and there is a gradual decline during the three ensuing years, until it falls in 1923–24 to a figure that shows only an advance of 26.7 per cent on the pre-war value, 12.4 per cent of which, moreover, is attributable to the increase of population, and part of the balance may be due to the greater frequency of liquidations, consequent on more frequent transfers resulting from the higher death rate due to the war and the influenza epidemic.[10]

There has been, especially during these last few years, a very considerable increase of railway traffic, the index number, as compared with pre-war, rising in 1924–25 to 152.5 per cent, and being not lower than 134 per cent when allowance is made for the growth of population. If we distinguish the total railroad traffic to and from foreign destinations (that is, traffic to and

[10] See C. Gini, *L'ammontare e la composizione della ricchezza delle nazioni*, Turin, 1914, p. 107; and V. Levi Minzi, "Considerazioni sulla frequenza dei trasferimenti a titolo oneroso e mortis-causa," *Economia*, February–March, 1925.

from ports and frontiers) from the rest of our railroad traffic, we find that the former category has risen from 14.4 million to 24.5 million tons, showing an increase 70 per cent greater than the latter category, which rose from 27.0 million to 38.7 million tons, thus being augmented to the extent of 43 per cent.

When we compare the traffic to and from ports with the total tonnage of merchandise delivered from abroad by international and coastwise shipping, we are struck by the fact that the increase of 40 per cent in the traffic to and from ports — which has risen from 10.8 millions to 15.2 millions of tons — is much greater than the increase in the volume of merchandise unloaded at the ports; this last increase being one of 12 per cent, from a total of 18.3 million tons in 1913 to 20.5 million tons in the fiscal year 1924–25. One is thus led to the conclusion that a larger fraction of the merchandise unloaded was formerly consumed at the place of receipt; or carried to its ultimate destination by other means than rail. In part this may be regarded as the outcome of transitory phenomena, such as the crisis which has checked the activity of industrial establishments situated at ports and inland waterway traffic centers. The ports of Voltri, Sestri Ponente, S. Liberata, Pozzuoli, Torre Annunziata, Castellamare di Stabia, Sicorta, taken by themselves alone, showed in 1923, as compared with 1913, a diminution of merchandise unloaded of almost one million tons

If we add to the merchandise imported via land frontiers, goods unloaded at our ports from abroad, we have a total of 20.6 million tons from the fiscal year 1913–14, and a total of 26.6 million tons for 1924–25 — that is, an increase of 29 per cent. The total of goods exported by land or sea was 4.7 million tons in 1913–14, and 6.6 million tons in 1924–25, showing an increase, therefore, of 40 per cent. The increase in total traffic is one of 31 per cent, which must be cut down by 16.5 per cent if regard be had for the growth of our population; the balance being a consequence of the increased importation of food products and raw materials essential, as we have seen, for the support

of our increased population, and for the maintenance of our industry, as well as the expansion of our exportation of manufactured goods, which calls for larger supplies of raw materials. Among the more important materials in the importation of which an increase has been recorded, we find, on the one hand, grain and, in several years, maize — indicating insufficient harvests — frozen meats, sugar increases due to augmented population; and on the other hand, things needed for our factories: iron and steel, copper, brass and bronze, crude rubber, raw wool, petroleum, benzine, and like products.

As for domestic railroad traffic, we have already stated tnat this has increased 70 per cent. If we add the goods carried by coastwise traffic — the volume of which has somewhat diminished from 10.2 million tons in 1913 to 9.3 millions in the fiscal year 1924–25, the increase in domestic goods traffic is reduced to 46 per cent; if we allow for the increase in population, the percentage is still further cut down to 30.

Part of this increase is certainly to be attributed to the same monetary phenomena of a temporary character, to reconstruction, and to processes of adjustment which have, as we have stated before, increased the whole volume of traffic. But these phenomena have largely ceased to make themselves felt, and their effect would be noticeable only in slight degree in any comparison between present and pre-war traffic. The shrinkage in traffic during recent years due to the economic crisis and to restraints on the freedom of business may have had some effect on the situation. The extension of the State railroad system of Italy (which was 20.4 per cent larger at the end of 1924 than at the end of 1913) has had some importance in this connection; and there probably has been more frequent use of railroad facilities rather than other means of transportation. We saw some trace of this situation when we examined the figures bearing on the railroad and shipping freight tonnage. But with all of these circumstances taken into account, there is undoubtedly some increase in traffic to be attributed to the greater industrialization of Italy.

In conclusion, we must recall that the results of the analysis of land and sea traffic statistics when examined without losing sight of the other phenomena, do not justify any unduly optimistic conclusions which might follow merely from consideration of the augmentation of that traffic.

The situation with regard to passenger traffic is not greatly different. The number of passengers by sea has increased a good deal, representing in 1924 about 237 per cent of the figures of 1913. Those arriving by land — the great majority — have increased much less, that is, by 6.5 per cent.

Altogether, the number of travelers has increased from 95,790,000 to 100,948,000, showing an increase of 8.5 per cent, lower than the increase of population (13.8 per cent) and the increase of mileage of our lines (20.4 per cent). The distribution of passengers by rail as between the different classes is worthy of note. An increase is registered only in the number of third-class passengers (9.9 per cent); there is a slight decline in the number of second-class passengers (index number = 98.8 per cent); and a very notable one in the numbers of those traveling first class (index number = 56.5 per cent). These figures may give the impression that many persons who before the war traveled second class now travel third class, and that a relatively larger fraction of those who used to travel first class now travel second. The variations may in part be due to the difference in the increases in rates for the three classes.[11] Another, perhaps more important circumstance, is that those formerly traveling first, and to some extent second class tend to travel more by other means of communication than was the case in 1913. This explanation is the more plausible on account of the increase, amounting to 144 per cent, in the number of motor cars from 20,691 in 1914 to 49,119 in 1924, and on account also of the much longer journeys which passengers

[11] The rates of 1913 compare with those of 1924 as 100 to 300 for third class, 100 to 336 for second class, and 100 to 350 for first class. See L. Tosti, "Quantità e prodotto dei viaggiatori delle rete dello Stato," *Rivista tecnica delle ferrovie italiane*, May, 1925.

traveling first class make as compared with those traveling second and third class.[12]

We find an increase in postal, telegraphic, and telephonic communications, which appears to be moderate, considering on the one hand, the growth of population, and on the other the increased call for correspondence, especially telegraphic, in industrial life, and lastly, the fact that postal fees have risen less than the price level.

The total volume of correspondence shows an increase over the pre-war volume of but 18.9 per cent in 1923–24, after having attained 67.2 per cent in 1917–18. Evidently in 1917–18 the anxieties of families in consequence of the war had a great deal to do with the increase in this figure; but the significance in the decline subsequent to the war cannot be overlooked. Down to 1922–23, the number fell off and recovered only in the last fiscal year. Allowing for the increase of population, this increase is reduced to 5.7 per cent. The number of telegrams has increased since the war by only 16.5 per cent for 1924–25, an advance which, when we take account of the growth of population, is reduced to 2.4 per cent. The number of domestic money orders paid is found to have decreased for 1923–24 by 15 per cent. The number of subscribers to urban telephone service has increased in 1924–25 by 48.4 per cent, but the growth of population in our large towns — which has been more striking than the general growth — has no doubt contributed to this result.

V. WAGES

We penetrate deeper into the working of the Italian economic organism when we examine the increase, compared with pre-war times, of the individual incomes of the various categories of people engaged in production.

[12] Average length of journeys:

	Kilometers	
Class	*1913*	*1924*
I	64.3	210.5
II	60.1	118.8
III	31.5	60.1

Data concerning temporary agricultural labor, especially collected by Prefects, show that the real level is, on the average, distinctly above the pre-war one. The index for twenty provinces is about 730 per cent for the first half year of 1925. Comparing this with the data on the cost of living, which gives an index equal to from 481–583 per cent, according to the different towns, it would seem that wages have increased by about 25–50 per cent. This conclusion would, however, be too optimistic, both because the cost of living, tending to uniformity throughout the country, has, however, increased more in the country than in the towns,[13] and because the wages of casual labor have increased more than those of regularly employed men. Other data, given as approximate by the Ministry of National Economy, dealing with all agricultural wages exclusive of crop-sharing farmers (*mezzadri*), show a lesser increase in wages. The index for 1923 is 566 per cent, showing an increase over the index for the cost of living (450–502 per cent) of 13–25 per cent.

It is easier to give more exact comparisons for the wages of industrial workers, especially in the big towns.

We have data relating to North Italy and particularly to Milan, for six industries and 24 categories of workers. The indices for July, 1925, range between 580 and 968 per cent and are in only five of the categories out of the 24 considered under the index of the cost of living in Milan for July (598 per cent). The average for the 24 series reaches 721 per cent. These data are provided by the "Associazione Lombarda degli Industriali." Other data are provided by the Statistical Department of the Commune of Milan and lead to analogous results. In five out of the six series under consideration, the index number for 1924 was higher than that of the cost of living (522 per cent); it varies between 511 and 778 wtih an average of 611. Similar results are attained for Brescia and Rome.

The mean of the index numbers of the 24 North Italian series, of the six Milanese series, of the Brescian series, and the 14

[13] See C. Gini, *Patologia economica*, Lectures at Luigi Bocconi University, 3rd ed., Milan, pp. 65–66.

Roman series would indicate real increases in wages of 21, 17, 13, and 12 per cent, respectively.

Some Italian writers have arrived at different conclusions, basing their results on the data of the "Cassa Nazionale Infortuni" concerning the wages of workmen meeting with accidents.[14] But it is proper to observe that with the Cassa Nazionale there are insured chiefly industries having a very large income, such as the metallurgical, mechanical, and chemical industries, which employ large numbers of skilled workmen. These workers, in contrast to the unskilled, and the women and children, show less increases in wages. Moreover, since pre-war times, the habit of insuring against accidents has been extended from the categories of skilled workmen at high wages to that of skilled workmen who are paid less, so that the average of wages given by the "Cassa," if they cannot be considered as representative of the wages of the mass of industrial workers, were higher than the average for the pre-war period, thus giving a considerably lower index than the real one.

Whilst we must recognize that present real salaries are higher than pre-war ones, we must remember certain circumstances which have prevented the standard of living of the working classes from improving proportionally. On the one hand, the workers have been obliged to replace implements, clothes, and personal and household objects that had worn out during the war and post-war periods when wages in many trades made saving impossible; on the other, war losses and the post-war increase in marriages and births have often led to an increase in the number of people dependent on the head of the family. Finally, the shorter but more intense period of labor adopted after the war in consequence of the eight-hour system made necessary some change from a vegetable to a meat diet, leading to an increase in the cost of food, as well as in the calory content thus developed.

Perhaps the more important circumstance is represented by

[14] See G. Mortara, *Prospettive economiche*, Città di Castello, 1925, p. 425.

the spread of education and the lengthening of the term of apprenticeship, in consequence of which the initial contributions of boys towards the family income are postponed, and the head of the family has to shoulder a heavier weight. Recalling the wider consumption of some non-essential articles and the greater savings of the peasants, we can explain how higher wages failed to bring with them a larger national food consumption. The working classes are renouncing, in favor of the progress of future generations, a higher standard of living which they could have afforded on the basis of higher wages.

How far below the wage levels of other countries that of the Italian workman remains, notwithstanding these improvements, may be clearly gathered from the following international comparisons.

The International Labor Office, following up the researches of the English Labor Department, has attempted to tabulate for 17 countries the amount of food, based on a typical basket, which the workers of each of the great towns could buy with the wages of an eight-hour day.[15]

The index thus obtained for Philadelphia as compared with the average of those for Milan and Rome are as 221 to 46.5; that is, 475 to 100.

This would mean that the American workman receives five times as much real wages as an Italian workman.

Criticism may be, and was, raised by these calculations. The food requirement is different in different climates and for different peoples. The contributions of the members of the family to its general budget, of which account has to be taken in judging its standard of living, may be different in different countries, and perhaps means more in Italy than in the United States. On the other hand, workmen's families are larger in Italy.[16] The question can be only one of measuring differences;

[15] Bureau International du Travail, *La deuxième conference des statisticiens du travail tenue à Genève du 20 au 25 avril 1925*, pp. 32–33.

[16] The average number of people in a family, as shown by the 1921 census, is 4.6 for Italy; and for the United States, according to the 1920 census, it is 4.3.

the results of the International Labor Office may be corrected within certain limits, but the fact unquestionably remains that the Italian workman has a much lower standard of living than the American. So low is the standard of living of the Italian workman that it could not be lower without impairing his productive powers. In none of the 17 countries considered by the International Labor Office, except Portugal — and reservations on the exactitude of the Portuguese statistics are not unreasonable — is the wage level as low as in Italy, where it is the same as in Austria, over whose population the world is in the habit of weeping; and Italy's wage level is actually lower than that of Spain or that of Poland.

VI. INCOME FROM CAPITAL

The income from real estate is distinctly less than the pre-war level. The increase in rents is not equivalent, in any part of Italy, to the increase in prices.

The "House-Owners' Association," questioned on this subject, gives the following answers, with reference to the position of house owners, compared with that of the pre-war period:

Rents: Increased two to three times;
Purchasing power of money: Fallen to one-fifth or one-sixth;
Taxes: Increased fourfold;
Various expenses and dues: Increased on an average sixfold.

From this they conclude that the effective income is reduced by one-half.

If some of the items in the above balance are doubtful, the conclusion, even if somewhat exaggerated, is not far from the truth.

The index numbers for the first half of 1925, taken from a Milanese working-class family budget, are, for rent, 393 per cent. The index number for wholesale prices is 663 per cent; the real rent would thus be equal to 59 per cent of pre-war rent. We get analogous results, still for Milan, from the data in the statistical yearbook of that city. These reveal average

increases in rents of 338, 422, and 515 per cent, according as they relate to long-time leases concluded prior to November, 1922, leases concluded subsequent to that date, or new construction. The "real" rents, therefore, would represent, respectively, 51, 64, and 78 per cent of the pre-war rent.

This was the result of rent restriction, partly natural and partly forced. It is well known that the Fascist Party, before arriving at power, was in tendency opposed to all forms of economic interference, particularly with reference to rents and such restrictions were abolished as soon as that party attained power, but in practice the need of regulating the increase of rents seemed inevitable; this was achieved, in spite of the protest of the numerous class of house-owners, by prolonging existing leases, by preventing evictions, and through the intervention of arbitral commissions.

The position of land-owners is similar, though somewhat better.

Data concerning the income of land-owners in Friuli on the crop-sharing system and on the rent system partially paid with agricultural products, show an increase, as compared with 1924, of from 100 to 395–440.

Data concerning incomes from land of typical farms, collected by Professor Tassinari, give, for the gross income, indices varying from 240 to 570, with an average of 408; the net income varies from 193 to 590, with an average of 397.

In general, in Italy, the gross income from land when compared with the pre-war period should be considered as increased fourfold, while for the same period the wholesale price index has risen 6.6 times. This was, indeed, the conjectural basis for the application of the recently established tax; but the fiscal authorities, although at present most strict in Italy, were obliged to recognize that the increase was too high and to lower it to the ratio of 1 to 3, in consequence of remonstrances and technical evidence adduced.

The reason for this decrease will be found in the different distribution of agricultural income between tenant and owner.

As far as the crop-sharing system in Friuli is concerned, the index for the increase of the income of the tenant is 478 per cent, whilst for the owner, it is 395 per cent. Similar conclusions may be drawn from the comparison on the basis of the data gathered by Tassinari of the increase in the gross selling value of produce and the increase in income derived from land. Except in the poor regions of Umbria where the increases were about equal in proportion, that of the value of the gross production was much greater than that of the income derived from land. The difference was greatest in the cases of estates in Lombardy and Apulia, where the wage system prevails, less notably in Sicily, around Bologna and in portions of Umbria, where crop-sharing and other systems exist which leave the owner of the land both the technical supervision and the risk. On the average, whilst the increase in the gross income from land amounted to 408 per cent, and that of the net income from land was 397 per cent, the increase for gross production was 488 per cent. Whilst the gross production of a Lombard irrigated farm had risen to 460 per cent, and of an Apulian farm to 430 per cent, the payment for labor had risen to 840 per cent and 540 per cent, respectively, thus absorbing a much greater quota than the increase in the value of the product.

According to Professor Serpieri, the percentage of the value of Italian agricultural produce absorbed in the payment of manual labor was, before the war, 40 per cent, and has, during post-war years, risen to between 45 and 50 per cent.[17]

Conformably with the view of Serpieri, the yields of pre-war and post-war agricultural and forest production, according to the most recent official estimates, may be set forth as follows, under the several heads of production:

[17] See *Il problema tributario in relazione all' agricoltura*, "Federazione italiana dei Consorzi Agrari, Commissione di studi tecnici ed economici," 1923, No. 3, p. 4–7; Serpieri, *La politica agraria in Italia e i recenti provvedimenti legislativi*, Piacenza 1925, pp. 244 and 248.

DISTRIBUTION OF THE VALUES OF FOREST AND AGRICULTURAL PRODUCTION

DISTRIBUTION	PRE-WAR PERIOD		POST-WAR PERIOD	
	Billion lire	Percentage	Billion lire	Percentage
Total value of production . . .	9	100	42	100
Seed and depreciation	2	22	10	24
Wages	3.6	40	20	48
Salaries for management, interest on working capital	1.1	12	5	12
Return on capital invested in the land	2.3	25	7	17

It will be seen that the returns on capital invested in the land have decreased from 25 per cent to 17 per cent, and thus represent, at the present time, 68 per cent of the pre-war value, admitting an equal production. But since production per unit of area [18] has decreased by 3 per cent, the income accruing to the land-owner may be considered as representing, in kind, 66 per cent of the pre-war income. During the agrarian agitation of 1920 and 1921, the reduction in the percentage of the product due to the owner was much greater, and, in terms of the contracts entered into in some provinces, amounted to but little more than one-third of what it had been before the war.[19]

[18] The value of agricultural production, eliminating the rise of prices, may be estimated to-day at about 104 per cent of the pre-war value, but the area under forest and agricultural cultivation, (28,442,715 hectares) after the addition of new provinces represents 107.8 per cent of the pre-war area (26,378,613 hectares). Thus the production per hectare amounts to 0.97 per cent of the pre-war value.

[19] See C. Gini, "Pathologie économique," in *Scientia*, I–IX–1923, p. 182. In the province of Treviso, for example, the pre-war contracts assigned to the owner about 35 per cent of the product. For the agricultural seasons of 1919–20 and 1920–21, this was reduced to 12.5 per cent, but, with certain transitional adjustments on account of the deterioration in the condition of the soil due to the war, the owner's share ultimately came down to a rate of 12 per cent.

The decrease of real income experienced by owners of securities has been even greater. While the wholesale prices index number calculated by Bachi has risen, as we have stated, to 695 per cent,[20] stock quotations stand at 135.5 per cent, a level which should be put a little higher, but apparently not much higher in order to allow for privileged issues in the interest of old share-holders. We have, therefore, to deal with a falling-off of more than 80 per cent suffered by owners of this category of property.

The incomes of creditors and of capitalists have been cut down still more drastically. Particular importance is to be attached to the class of mortgage creditors, whose holdings amounted, before the war, to 4,250 million lire, and to persons owning savings' deposits, the total of which amounted, as we have seen before, to 7 billions and a half. They have experienced a loss of property equivalent to the loss in the purchasing power of money. That is to say that their property, by July, 1925, had depreciated to about one-seventh (or more precisely, to 14.4 per cent) of its pre-war value.

The owners of government securities have experienced a yet severer loss. In July, 1925, 3½ per cent bonds were not worth in paper lira as much as 72 per cent of their value in 1913 in pre-war lire. They are, thus, now worth 10.3 per cent of the purchase money paid by their owners. The owners of 4½ per cent bonds are not much better off; taking the level of prices in July, 1925, into account as compared with the price level existing in the month in which the bonds were subscribed, and the subscription price as compared with present quotations, they are worth only 12.2 per cent of the money paid for them; the owners of 5 per cent Consolidated stock have lost very much less, their securities being worth to-day about 49 per cent of the subscribed value.

[20] Bachi's Index for the end of June is 682.0 per cent, for the end of July 707.2 per cent; their average is 694.9 per cent.

VII. THE LIBERAL PROFESSIONS

The salaries of government employes have been affected in very different degrees according to their rank. The lowest classes in the service, whose position approaches more nearly to that of manual workers, have obtained, like the latter, an increase in wages equivalent, and often higher, than that of the cost of living, while employes belonging to higher ranks have been granted lesser increases, which means to say that their real salaries have, in fact, decreased

The results of very detailed inquiries in this regard have established the coefficients of minimum, maximum, and medium increase, according to rank, as compared with pre-war salary. The higher the level of the pre-war salary, the more marked is the diminution of the coefficient of increase, with a slight exception for ranks which before the war had an income of between 3,001 and 3,500 lire. Allowing for the fact that the index number of the cost of living ranges for the first half of 1925 between 4.81 (Rome) and 5.83 (Milan), it may be stated that the two lowest groups, which, prior to the war received incomes not exceeding 2,000 lire, have bettered their condition; that the eight higher groups receiving incomes of above 3,000 lire, are worse off; while the two intermediate groups, with incomes between 2,001 and 3,000 lire, have received increases sufficient to cover the rise in the cost of living.

Data with respect to the incomes of persons exercising the liberal professions are completely lacking, but it is safe to assume that their position, while somewhat improved, is analogous to that of civil servants in the intermediary or higher ranks. While, on the one hand, it may be assumed that they have an advantage over state employes, insofar as they can recoup themselves from their clients for the rise in the cost of living, on the other hand, it is likely that the diminution of incomes from real estate experienced by owners of land, houses, and securities, and by the higher civil employes (who constitute the classes from which an important part of their clientele is drawn) has reacted on the fees paid by them.

VIII. EMPLOYERS

Data with respect to this class are also not available, but everything we know with regard to the conditions of trade leads to the conclusion that during the period within which prices have been nearly stabilized, their earnings cannot have been any higher than they were before the war.

Data as to paid up capital and the profits and losses of share companies published by the Credito Italiano, make it clear that share companies in the aggregate and especially industrial companies, realized large profits during 1918 and 1919, when prices were soaring, as well as considerable profits during the following year (1920) but that they found themselves in a difficult position during the two following years, and, in 1921, instead of profits, they experienced actual losses.

It would certainly not be correct to judge the state of Italian industries, as a whole, from the conditions found to prevail for corporations. Small firms are certainly less influenced by general circumstances than corporations. The results above mentioned, however, most certainly point to the fact that the Italian industrial organism, as a whole, operates under conditions not at all flourishing in character, and certainly does not derive exceptional profits. Making reductions appropriate to the increase in the circulation, we find that bankruptcies have returned to the pre-war level, and, during the first seven months of 1925, even somewhat exceeded it.

With the circumstances of private business concerns are involved those of their employes, whose wages necessarily rise and fall with times of prosperity and depression. Among the employes in more favorable conditions must be included those of the Chambers of Commerce, which have extensive resources without exceptional obligations. The data furnished by one of the most flourishing of the chambers, that of Brescia, permit us to determine the fact that from 1914 to 1924, the compensation of the Director and his assistant has increased by 426 per cent, that is, by about the rate of increase of the cost

of living. The salaries of the clerical force have increased by about 486 per cent, or a little better. The wages, finally, of the janitor, watchman, and like employes have increased at a rate distinctly above 730 per cent. Thus in this field we find the same difference between higher and lower employes which was encountered in the case of employes of the government.

It may be said, in summary, that the level of workmen's and lower grade civil servants' wages shows a distinct improvement over the pre-war condition while there has been a considerable decline in the incomes of the capitalist classes, of land and house-owners, of intellectual workers, and perhaps also, during some recent years, of the class of employers.

IX. RECURRENT ABNORMALITIES

The changes to which we have referred are by no means isolated phenomena, but are all intimately correlated, as to make out a system.

If there had not been a fall in the scale of rents, these would have weighed still more heavily on the budget of working-class and employes. The calculation could be made that if rents had gone up in Milan in proportion to the cost of an unoccupied house, rent would have represented to-day in the total budget of the workman living in that city a burden of about 4.5 per cent, and in the total budget of a government employe living there a burden of about 7.3 per cent.[21]

In such circumstances, workers and employes would have experienced a decline in their standard of living which, even to-day, is hardly sufficient to meet the demands for a full efficiency of work, or else — as is still more probable — they would have

[21] In order to be equivalent to the cost of a vacant house, the rent would have to represent 154.4 per cent of what it actually is now, taking as the basis a lease rate of 393 per cent of the pre-war. The cost of a vacant house would have to be 607 per cent of the pre-war rate. Now, in the family budget of a workman in Milan for July, 1925, the outlay on rent represents 8.71 per cent, while in the family budget of a state employe, it represents 13.66 per cent, according to the bulletin *Città di Milano* of July, 1925, p. 264.

shifted the new burden to the class of employers, the State, and public bodies, asking for an increase in wages and salaries, thus rendering the conditions of production and public finance yet more difficult.

In the same manner it would not have been possible for agricultural wage-earners and crop-sharing farmers, to keep their gains up to the pre-war level, given the stationary conditions of production and the growth of the farming population, unless they had encroached on a portion of the production which was previously enjoyed by the land-owners.

Employers and land-owners, on their side, would have encountered still harder difficulties of production, which to-day is not on a favorable basis, had they not benefited by the depreciation of the paper money by which the real value of their mortgage and other debts has been reduced to about one-seventh of the original burden.

In like manner it would have been impossible for the Government and the departments to meet their debts had it not been for the depreciation of the real values thereof. It has been computed that the interest on public debts up to the end of 1922 would have absorbed 26 per cent of national income if prices had descended to the pre-war level.[22]

The above considerations prove, not only the reciprocal connection between the variations referred to, but also how essential they are in enabling the national organism to carry on, in the difficult after-war conditions.

We cannot fail to note the opportune manner in which these several changes arise so as to render it possible to get through crises and work back to normal conditions.

The profits of employers, whose function is to give an impulse to production, are ensured, where necessary, at the cost of all the other classes, as happened during the war and in the period immediately following it. Not only is it a fact that their earnings are not reduced below the nominal level, but it comes to pass that when conditions are particularly difficult — as was the

[22] See *Pathologie économique*, Scientia, 1923, pp. 115–118.

case in the most critical movements of the war and the period just following — they are in a position to realize in consequence of inflation exceptional gains which constitute the best incentive to give an exceptional impulse to production. This is indicated clearly by the high percentage of net profits made by corporations during the years 1918 and 1919.

The workers belonging to the industries the production of which must be raised to the maximum are also in a privileged position in this regard, while other classes of workers are worse paid than before the war. But the privations to which these classes are subjected cannot be indefinitely prolonged without injury to their working efficiency, and therefore after their wages have remained for some time below the normal level, there was a tendency to a rise in real wages up to the pre-war level, and indeed during certain periods, they kept above it, in such a manner as to allow the replenishment of stocks and worn-out tools and personal effects. The comparison of the wage figures with the statistics of the cost of living shows how real wages in Italy, generally speaking, remained below the pre-war level with interruption in 1918 and 1919 for the industries taken into consideration in Milan and Rome, while for the industries of Brescia (among which industries connected with the conduct of the war had special importance) and for temporary laborers in agriculture (whose production had to be stimulated in order to make up for the shortage of labor), real wages were always above pre-war levels.[23]

The position of employes is much the same as that of workers in trades other than war trades.

The owners of material and intellectual capital are the class who are longest subjected to sacrifices and who are slowest in returning to the normal scale of income.

It is hardly necessary to point out that such an order of things,

[23] For other material relating to nominal and real wages during the war and the first years after the war, see the article entitled *Sul livello dei salari reali nel dopo-guerra in Italia in confronto al loro livello prebellico* in the *Rivista di politica economica*, April, 1923.

even if it responds to transitory necessities, can hardly be prolonged without a progressive deterioration of the national economic system.

Owners of houses, who receive inadequate rents, no longer take the trouble to carry out requisite repairs, and capitalists do not find it profitable to invest their money in real estate.

The cost of erecting a building has, in fact, increased five or sixfold while there has been a much smaller rise in the scale of rents. In Milan, where, as we have seen, rents are nearly four times higher than before the war, the cost of building has increased more than sixfold. In such conditions houses cannot be built — except in exceptional cases — unless they are subsidized openly or covertly, by the Government (for instance, with exemption from taxes, or loans at a lower rate of interest than the market rate); and this is precisely what has occurred and is going on in Italy. But such a policy must naturally weigh on the budget in a way that is not long in making itself felt. Subsidies are, in fact, gradually diminishing.

With a cessation of subsidies, and a falling off in building, the housing crisis, which interferes with the normal movements of citizens and the development of big cities, would become a permanent and ever-increasing difficulty.

The decreased quota of production due to land-owners makes it difficult for them to invest their savings in improvements, which, even in normal conditions, often are not profitable. This naturally hinders the progress and development of agriculture.

In like manner, manufacturers, when able profitably to carry on their former businesses, thanks to the depreciation of their debts which were contracted in full-value currency, would not find it worth while to buy new plants with capital borrowed in the market in depreciated lire. And the position of old established firms would become more difficult as, by degrees, the part of capital paid up when money was worth more declines in value in comparison with the new capital required to provide for the renewal of operating funds and for improvements demanded by technical progress.

The calculations which we have made permit us to estimate what would be the coefficients of correction whereby percentages of profits of the various companies would have to be multiplied in order to obtain the corresponding percentage of profit which would have existed, if there had been no deflation of the subscribed capital in consequence of the loss in the purchasing power of the currency.[24] These coefficients, for example, indicate that, if there had not been any depreciation of the value of the capital of corporations as a result of the shrinkage of the purchasing power of money, the proceeds of the stock companies in 1918 instead of having been 4.15 per cent would have been 0.328×11.15, or 3.66 per cent. In analogous fashion the proceeds of 1919, instead of having been 10.29 per cent, would have been 4.21 per cent; those of 1920, instead of having been 8.55 per cent. would have been 3.32 per cent. These coefficients of correction prove that the conspicuous profits realized by industries during the war and post-war years, which stimulated the war-time activity and the process of reconstruction, were conspicuous only because of the depreciation of the currency. But this favorable condition is little by little losing its effect. The portion of stock company capitalization which was subscribed in lire *already depreciated* is beginning to increase, and consequently the value of the ratio $\frac{B}{A}$ is beginning to increase.

If present conditions were to be maintained, it would become increasingly difficult to renew and increase the capital to be invested in real estate, and the industrial capital. Nor would the position be any easier for human capital, represented by the

[24] Similar calculations were made in order to determine the coefficients of correction which would have to be used in multiplying the percentages of profits of stock companies with regard to their nominal capital, so as to obtain the corresponding percentages which would have existed, if the paper lira had retained the purchasing power of the gold lira. These coefficients are used in the study on the *Fiscal Burden of Italian Stock Companies* of Professor Gino Borgatta in the collection of memoranda prepared in connection with the negotiations for the funding of the debts.

working value of the population, achieved as the result of the investments made by the parents in education and training of their children. The low wages earned by employes and often by professional men, frequently render it impossible for them to bring up their offspring according to the pre-war standard.

The average of the index numbers (based on statistics from 12 national colleges) of the cost of feeding a school boy was, in 1924, 349 per cent, which is rather below the index of the cost of living, varying from 447 per cent in Rome to 552 per cent in Milan and Brescia. The deduction may fairly be made that the standard of living of students living in university dormitories has distinctly fallen. In spite of the lower standard of life to which many students adapt themselves, it is often outside the capacity of the family budget to provide the expenses of sons living away from home and studying at the universities and higher institutes. The universities and higher institutions of learning are relatively deserted; they are attended by students of the respective localities and a few from other places who happen to be sons of business men that have taken up advanced studies. One may gather from this fact that those who are students to-day are likely to have in the life of tomorrow an efficiency below that of those who were students before the war. The outstanding students, moreover, refuse to pursue the poorly compensated careers of teaching and other public services, and the personnel of the latter consequently has come to be recruited more and more from elements of inferior quality.

It is evident that a condition of this sort can hardly continue without progressive decay of the Italian national organism. At this very moment that organism is in a pathological condition, even though there are too few, unfortunately, who take account of the fact. By a pathological condition we mean precisely one which cannot continue without bringing about the breakdown of the organism itself.[25]

[25] In connection with the concept of economic pathology and its development and application see the article cited in *Scientia* for August and September, 1923, and the course of lectures at the *Università Commerciale Bocconi* already cited.

The Italian economic organism, after struggling through the war crisis and the crisis immediately following the war, has not yet got back to normal conditions. It is at the present time in a state of convalescence. Serious thought is provoked by the fact that this convalescence is progressing very slowly and that it is not yet over, despite the improvement which dates well back to the beginning of 1922.

X. HIGH COST OF LIVING

Another index, in no sense doubtful in its importance, of the lack of economic equilibrium in which the Italian nation finds itself at this time, is afforded by the persistence of the problem of the high cost of living.

After the war this problem existed at least for certain social classes in all the countries which had been involved in the conflict, less, to be sure, in some, than in others. It depended, as was natural, upon an abnormal distribution of the national income insofar as the abnormal portion of that income which, during the period of inflation, had been distributed to business men represented a corresponding curtailment of the income of other social classes.

The income of these other classes, consequently, rose to a level below the cost of living and they became aware that living had become extremely costly for them. But when the problem of the high cost of living continues on and on for a greater or less fraction of the population without any other fraction thereof being able to realize exceptional profits — which is precisely the state of affairs existing in Italy for some time — the conviction that living is costly really signifies that at least for some categories of the population the national income is insufficient to maintain the standard of living which they have accustomed themselves to observe.

XI. THE DISEQUILIBRIUM OF THE EXCHANGES

Characteristic is the discrepancy between prices and foreign exchange, which is shown in the following diagram.

(Diagram omitted)

Curve A, which represents the course of the level of exchange (price of the dollar in lire) remains almost constantly above Curve B, which shows the ratio of the index number of wholesale prices in Italy and the corresponding index for the United States.

In other words, wholesale prices in Italy may be said to have been almost constantly lower than they have been in the United States.

The two exceptions are, in fact, only apparent; they depend on a displacement of phases in the two curves, that of exchange preceding, in its variations, the curve of prices. If we move by two months the curve of prices, as is shown in curve B′ it will be seen that the latter remains constantly at a lower level than the curve of exchange (A), at a distance which varies with time, becoming less when the exchange tends to be favorable to Italy and increasing when the exchange turns against her. From about the middle of 1923 to the end of 1924 — a period during which the exchange was almost stationary — this distance showed a slight but persistent decrease, which had reduced its degree to little more than 10 per cent above the level of exchange, and to 12 per cent above the level of the ratio of prices. This is tantamount to saying that prices in the United States translated into lire would have been 12 per cent higher than prices in Italy.

This difference, however, refers to wholesale prices, to which the index numbers (upon which curves B and B′ were based) apply. Persons who have had an opportunity to live in Italy and in countries with sound currency (United States, Canada, Switzerland, Sweden, England) during recent years, know that, so far as retail prices are concerned, the difference is much greater, giving the impression of a range between 50 and 100

per cent; nor has this difference been substantially attenuated during the last three or four years.

This persistent discrepancy may astonish those who recall the current theories of the economists on the exchanges. To be sure, these theories admit that in periods when the exchanges are fluctuating rapidly, the ratio between price levels may remain much above or below the exchange level; but they contend that when the dynamic period ceases, and the exchange rate has been stabilized at a level more or less above its former level, compensating factors intervene to obliterate the lag, exchange and price levels eventually merging, except in particular cases.

But if we analyze the problem thoroughly, we conclude that this theory corresponds to the facts for economic systems in normal, or nearly normal conditions, which possess the strength to operate in such fashion that the "compensating factors" may make themselves felt with full effect and restore equilibrium with foreign countries.

If this does not correspond to the true state of affairs for Italy, it is perhaps because the Italian economic organism has not yet recovered from its period of weakness, during which these compensating factors could not make themselves felt.

Under present conditions, it cannot be doubted that the low level of prices in Italy, when computed in gold, constitutes a disadvantage to the country. It makes it necessary for Italy, in order to realize a given sum in gold on the international market, to sell a larger quantity of goods. In passing, it might be noted that in a general crisis of markets this situation could be one of advantage to Italy. For then the draw-back in question might be compensated or more than compensated by the advantage of outrunning competitors in the shape of other exporting countries, by means of maintaining bottom prices; and thus both the market and unemployment problems would be solved, or at least rendered less serious.

But regardless of these theoretical considerations, this price

lag undoubtedly represents for Italy an absolutely necessary state of affairs.

To appreciate the truth of this, we have only to reflect on what would happen if, while exchange remained stationary, prices in Italy were to rise from 50 to 100 per cent, thus becoming equal, when translated into gold, to the prices prevailing in countries with sound currency. In view of such domestic prices, there would be fewer producers in Italy who would find their advantage in exporting at prices (assumed to be stationary) which foreign countries are inclined to pay for the goods they import. Thus exports would decrease. On the other hand, there would be a greater number of Italians who would be unable to meet the competition of foreign producers, who would continue to supply goods at the present prices. Thus, imports would increase; and the deficit in the trade balance would swell. Furthermore, as far as it is possible to judge, the so-called "invisible" assets would diminish. These, under present conditions, allow us to cover our unfavorable trade balance without increasing our indebtedness abroad. High prices would constitute an obstacle to the influx of tourists and to the remittances of emigrants as well as to the investment of capital by foreigners.

In short, it is evident that the persistence of a discrepancy between exchange and prices, constitutes a condition of disadvantage for Italy, but one necessary to enable her to adjust her balance of payments.

In other words, Italy is not yet in a state of economic equilibrium; she is managing to keep her international accounts in balance only at the cost of subjecting her people to sacrifices that the populations of countries with gold currencies do not have to endure, insofar as the Italian people are compelled to produce for the same price a greater quantity of goods.

This state of things, moreover, does not represent any advantage, but rather a disadvantage to countries having a sound currency, which find themselves, as is well known, both at home and abroad confronted with the competition of goods which have been produced, and can be sold, for less. This constitutes an

obstacle to their industrial expansion and to the reduction of unemployment. In these days all civilized nations form one complex whole, one great economic organism, and it is an illusion to imagine that any part of it can be placed at a great disadvantage without this reacting to the prejudice of all, or at any rate, retarding their progress.

We have seen that the discrepancy between prices and exchange rates has been quite slowly correcting itself; and, leaving out of account the effects of the fluctuations which have occurred in exchange rates during recent months, this fact is noteworthy, and may afford some surprise to a person examining the index numbers of the economic life of Italy in the post-war period, most of which testify to an unquestionable progress in Italy, at least down to the end of 1924.

On the one hand, such progress as there has been is partially offset by the increase in the population. On the other hand, that progress has been offset by progress sometimes no less marked, if no more rapid, in the cases of other countries.

The discrepancy between exchanges and prices, as a matter of fact, is the consequence of a condition of relative sacrifice on the part of Italy, contrasted with nations possessing stable currencies.

Our conclusion is that it would be impossible to require of Italy the payment of a single lira of indebtedness without (1) rendering more arduous the effort which the Italian people are making to-day in order to restore equilibrium in their international accounts, (2) aggravating, as a consequence, the discrepancy between exchange and price levels, and (3) emphasizing the lag between the prices at which Italy can put her goods on the international market and those which nations of stable currencies must ask in order to be able to put the same goods on the same market.

It is an error to assume that the fact that a nation can produce at a low price, by keeping down the level of compensation of certain elements of production, constitutes an advantage for the nation in question or a favorable index of its capacity for

making international payments. Exactly the contrary is the case. It is just the nature of these difficulties in which such a nation finds itself, and the impossibility of otherwise balancing its payments, that compel it to underpay certain factors of production in order that it may achieve bigger exports, fewer imports, and attract foreigners and their capital; and every sacrifice or burden which is brought to bear on its economy cannot fail to aggravate the situation not to its own injury only, but to the injury of the whole international organism, and in the long run, probably, to that of the same countries in whose interests the burden has been imposed. The existence of a permanent discrepancy between exchange and price levels is a problem which has not been properly surveyed, or at least adequately analyzed, so far as we know, either by economists or by business men. It is a question of such importance that we may be permitted to indicate how far it is in accord with the current theory regarding international exchanges known under the name of the purchasing power theory. This will permit us to throw some further light on the question and determine the solidity of the underlying principles.

This theory states that, leaving out of account the influence of customs duties and transportation costs, the exchange between two countries cannot for any very long time fail to be determined by the ratio between the domestic price levels of the two countries. If in one of the two countries, prices should remain lower than it would be natural to expect on the basis of this formula, buyers would tend to flow to that country from the other which in turn would cause goods to become more expensive there until equilibrium shall have been restored.

This affirmation is a truism insofar as relates to goods which enter into international commerce and in the conditions under which these goods enter that commerce. In other words, all that this affirmation does is to set forth the obvious fact that the price of a given imported commodity — for example, grain — is the same, allowing for tariff duties and transportation expenses, as its price on the market where it was purchased

translated into lire at the rate of exchange. But the theory does not hold for goods which do not enter international trade or enter only for a small fraction of their production, or for goods that are fixed in their nature, or again for goods that are tied to a given country for reasons of a non-economic character, such as is sometimes the case for manual labor and much more often the case of intellectual labor, or again for goods that are perishable such as vegetables, or still again in the case of commodities which are produced in all countries to an extent not exceeding domestic needs as, for example, natural fertilizers. For that matter, the theory does not wholly correspond to the truth even for merchandise entering into international commerce, when resold at wholesale or retail, insofar as costs of warehousing, transportation and possibly, of further fabrication, may be different in the two countries. The retail prices in particular may be quite different in the two countries, and the difference between them may be such as to compensate in large measure in the case of imported commodities for tariff duties and transportation costs. In Canada, for example, furs are sold, as the writer has had personal opportunity to observe, at prices which when translated into lire or into francs are much higher than those prevailing in Italy and in France for the same furs imported in crude form from Canada and burdened with tariff and transportation costs, subsequently being prepared for consumers' use in Europe.

Another error — characteristic not so much of the purchasing power theory as of its current interpretation — is the assumption that in the relations that obtain between price fluctuations and exchange fluctuations the former constitute the independent variable and the latter the dependent function.

This thesis would be tenable if currency had merely the function of serving as intermediary for monetary exchange. But in addition to that function, money has always had another function to fulfil, namely, that of a means of accumulating wealth; and this second function tends constantly to assume greater importance in contrast to the first function in proportion as the

part of the national income set aside for saving and for speculation increases.

To-day the rate of exchange between two currencies is not so much fixed by the merchants who seek foreign currencies in order to buy goods as it is by those who have brought together and continue to hold — with a view to speculation or saving — currencies of the two countries in question. This process represents, as it were, an estimation of the value of the two currencies, depending not only on their actual purchasing power in the respective markets but also, and principally, upon their future power anticipated in relation to various events, not merely economic but also political, and up to a certain point upon the difference in the ease of exchanging the two currencies in third countries. The dollar in the United States and the British pound, universally known currencies, from this last point of view possess an advantage over all other moneys.

Herein lies the explanation of the extreme tendency of the exchanges to fluctuate quite apart from actual changes in the price levels of the given countries and quite apart also from variations in their actual economic conditions.

These independent variations in the rates of exchange determine corresponding changes in the quantities of goods imported and exported as between the two countries, and these changes tend to make the marginal costs, and then the prices of the goods in question, stand to each other in the two internal markets in the same relation as is represented by the rate of exchange.

Theoretically, variations of exchange rates can be determined by independent changes of price levels of the two given countries or of one of them, as the result, for example, of inflation or of poor harvests. But in practice, since these fluctuations are foreseen by discerning holders of the national currency a good deal more easily than perhaps the domestic market can perceive them, the changes in price levels do not in reality generally precede the changes in exchange rates but follow the latter. Thus, as may be seen in the case of Italy from the diagram

mentioned above, variations in exchange rates regularly precede variations in prices.

While changes in the prices of commodities entering into international trade thus appear closely bound to fluctuations in the rates of exchange, the same assertion is not to be made in the case of variations in the prices of other commodities nor in the case of the cost of the various factors which for commodities entering international trade successively intervene to increase their price from the time they are imported until they have finally been disposed of at retail.

Consequently, it is the price of the goods produced at home, or the compensation due to the factors above mentioned, which shrink or expand so as to cover the greater or less discrepancy between the exchange level and the internal prices of the two countries.

The internal price levels can be regulated by *fiat* prices as has taken place often in history, or, as is happening in Italy now, they may be regulated by the necessity of achieving the balance of the international accounts.

XII. THE CAUSES OF ECONOMIC DISEQUILIBRIUM

If we wish to probe this problem to its depths, we must ask ourselves what are the causes which have led to this state of things.

First of all, it must be remembered that Italy came out of the war, after having made an enormous effort in men and materials. Her state was none too flourishing when she entered the war, afflicted on the very eve of the struggle, by an earthquake which had caused as many victims and great damage as the loss of a great battle, and at a time when she had just had to bear the upset and burden caused by the sudden and hurried influx of a great number (which many compute at a million) of Italians who had withdrawn, or had been expelled, from countries already involved in hostilities.

An analysis of the ratio of cases of sickness to wounds sug-

gests that the physical effort demanded of Italian soldiers was greater than that demanded of any other Allied Army.[26]

The spread of the influenza epidemic which was so much worse than in the other allied and associated countries, proves that, in consequence of the poorer state of nutrition, the resistance of the Italian people was reduced to a much lower ebb than that of other populations. It should be remembered that the number of civilians (nearly a million) who died in excess of the normal death rate was much greater than the number of deaths in the war, notwithstanding the fact that the death rate among the mobilized men (taking the different periods of duration of the war into account) reached a higher figure than in any other case except that of France.

The rate of exchange, which expresses synthetically the respective economic situations of nations, has been unfavorable to Italy, on all the allied and associated markets, with a progressive depreciation which it was found necessary to check, in the last year of war, by international conventions.

Before this intervention occurred, the exchange was more unfavorable to Italy than to many of the enemy countries.[27] The marriage rate, which represents the desire and possibility of satisfying the primordial needs of the species, had descended to a lower level than in other countries, enemy or allied.[28]

A far from negligible part of the national territory and of the

[26] See C. Gini, and L. Livi, "Alcuni aspetti delle perdite dell' Esercito Italiano illustrati in base ai dati degli Uffici Notizie," in *Metron*, Vol. IV–VII.

[27] On June 1, 1918, the exchange had risen to 230 per cent of par, while it stood at 143 per cent at Paris, 159 per cent at Berlin, and 220 per cent at Vienna.

[28]

Country	*War period*	*Average of annual coefficients of marriage-rate*
England and Wales	1914–1918	19.7
Austria	" – "	10.9
Germany	" – "	10.1
Belgium	" – "	9.4
France	" – "	8.4
Italy	1915–1918	6.9

new provinces, had been devastated,[29] causing an exodus of more than 630,000 refugees. But far more serious were the less visible damages caused mainly by the exhaustion of the land and by the inefficient condition of railway transportation.[30]

At the end of the war, the Italian nation found itself in a serious state of impoverishment and physical weakness, and was compelled immediately to shoulder the burden of a commercial and economic situation which had been embittered abroad by differential prices (coal) and monopolies (wool), by open or covert export duties (cotton, jute, etc.). And in addition the national aspirations of the people were disputed and disappointed.

Apart from direct economic injury, a widespread discontent followed, which gave an opportunity to subversive parties and constrained Italian statesmen to placate disaffection by means of financial measures which were designed to satisfy popular demands and which dealt a blow at the new rich. In this way there came about the confiscation of war excess-profits which seriously hampered the progress, so happily initiated, from a war to a peace economic standing. The eight-hour day legislation was also due to this development. This measure introduced a reduction of hours of work, which it was more difficult in Italy, than in most other countries, to compensate by increased pressure of work, because the climate and the people's diet, which is to some extent dependent on it, lend themselves less well to short hours of intensive work than to longer hours of less strenuous effort.

To this must be added a heavy domestic debt (91.3 billion lire, equivalent to about one-sixth of the aggregate private wealth), all of which, indeed, must not be counted on the debit side of the national economic balance, but which certainly represented an element unfavorable for production, insofar as it

[29] The material damages caused directly by the war are set forth in the report, *I Danni di guerra ai beni di terraferma*, etc., Rome, 1925.

[30] See C. Gini, *Problemi sociologici della guerra*, Bologna, 1921, pp. 308–309.

created a disconnection between work and income, by insuring to a certain section of the public an income independent of all productive activity, thus depriving it of all incentive to work.[31]

The burden of taxation, which had reached a degree of severity unknown in other countries, hangs like a weight of lead on the country's economic life.[32]

XIII. NATIONAL WEALTH AND INCOME; INTERNATIONAL COMPARABILITY

Notwithstanding these adverse conditions, the Italian people, sober, industrious, and tenacious, emerged from the war with a renewed will to progress — which, after some deviation, was directed into proper channels by a strong administration. The Italian people have contrived, in the course of a few years, completely to repair all war damages, both in the devastated regions and throughout the rest of the country, and travelers in Italy to-day gather the justifiable impression that her material wealth is not less but, if anything, more abundant than it was before the war, by reason of the new buildings which have been built and the new factories which have been added to those existing before the war.

We should not be justified, however, in drawing optimistic conclusions, even apart from and leaving out of account for the moment, the alarming burden of foreign debt. Indeed, we must not forget that both our wealth in material capital, and the wealth accumulated by education and training, which constitute our human capital, are producing, as we have seen, under pathological conditions, in which they are unable to realize the profits rightly due to them. It has already been pointed out that these conditions are expressed in the difference between the domestic

[31] See in this connection, "Sul problema finanziario del dopo guerra," published in the *Supplemento economico* of *Il Tempo*, February 3, 1919.

[32] Specific figures may be found in Boldrini "Capacità contributiva e gravame fiscali di alcuni Stati," *Metron*, Vol. V, December, 1925.

price level of Italy, when translated into gold and in price levels of other countries having sound currencies.

Let us see how these circumstances affect the nation's income and wealth.

Including the provinces joined since 1919 to the motherland, Italy possessed, before the war, an income which was estimated at 20 billion lire. At the present time it is estimated at 100 billions. We adopt the more optimistic of the trustworthy estimates.[33]

On the basis of the index numbers of wholesale prices (662.8 per cent according to Bachi; 621.9 per cent according to the Milan Chamber of Commerce in the first half of 1925) the pre-war income would be equivalent to-day to 126–133 billions. Are we to infer from this that the present wealth of Italy is one-fourth or one-fifth less than the pre-war wealth? No: if the wealth of a nation is to be estimated from the amount of goods and services produced, it may be assumed that, in goods and services, she has remained practically stationary since before the war. The difference between 126–133 billions, estimated on the basis of the wholesale price level and the actual 100 billions may be attributed to the fact that retail prices and the cost of many services have not gone up as much as the wholesale prices.

In 1924, the cost of living in Italy did not exceed, and possibly did not equal, five times the pre-war cost. In point of fact, the cost of living index number was in 1924, 522 per cent in Brescia and Milan, and 447 per cent in Rome; it is probable that it stood somewhere between these two figures in other parts of Italy. If the economic utility of the Italian national income has not substantially declined, its purchasing power in the international market is, however, much lower; 100 billion paper lire

[33] On this subject, reference may be made to one of the memoranda prepared in connection with the negotiations for the funding of the foreign public debt of Italy, under the title *A Comparison of the Wealth and National Income of Several Important Nations (Italy, France, Belgium, United Kingdom and the United States)*, Rome, 1925.

of 1925 are equivalent to 21 billion gold lire of 1925 or to 4.06 billion dollars of 1925. But, taking into account the dollar's loss of purchasing power, 100 billion paper lire of to-day represent only 13.3 billion pre-war lire, or 2.56 billion pre-war dollars while 20 billion lire of pre-war income, were equivalent to 3.86 billion dollars at that date. The income of Italy and of the new provinces as well, has thus lost, as compared with pre-war days, more than one-third (precisely 33.7 per cent) of its purchasing power on the international market.

The money value of wealth, as estimated from the total of private capital, has grown to an even smaller extent. If it had multiplied five times, as in the case of income, it would have reached an amount of 575 billions. Estimates do not exceed 550 billions, while some Italian statisticians actually give a much lower figure, namely, 400 billions.

The difference is due to the diminution, frequently referred to in preceding pages, of that portion of total income which accrues to capital. It should, indeed, be noted that if the variations in income were proportionate with the variations of capital, the value of wealth would be very much below the present value, all the more so since the rate of interest has considerably risen, as is well known. Out of 115 billions of pre-war wealth, we may estimate that about 15 billions consisted in consumption goods (furniture, clothes, jewels, ornaments, etc.), and 100 in productive goods (including dwelling houses), which may have produced about five billions income.

It is not exaggerated to assume that, considering total income as a stationary quantity, revenue derived from capital has decreased by one quarter; in the case of land-owners, as we have seen it has decreased by about one-third. Nor is it exaggerated to assume that, if the return on capital, before the war, was 5 per cent, it is now about 7 per cent. On the basis of these hypotheses, the five billions would be reduced to 3.75 which, at a 7 per cent basis, represent less than 54 billions (exactly 53.57 billions) of pre-war capital. Multiplied by the present wholesale prices (642.4) these 54 billions amount to barely 345

billions present lire. If we add the consumption goods which, at present prices, may be estimated at 75 billions, we obtain 420 billions, as against 550 calculated above.

The difference is produced by the confidence which Italians have in the future. On this account, the price of houses and land in many parts of Italy, have increased, as compared with the pre-war period (despite the higher rates of interest) much more considerably than income. Owners of lands and buildings believe that, if present economic conditions do not allow them to receive out of the national income a dividend corresponding to the pre-war dividend, this will set itself right in the not distant future. Land-owners, moreover, are discounting already the increment in the value of lands which they are confident will be achieved as a result of more intensive cultivation, especially in the case of formerly neglected areas, which are indeed, the object of large increases in price. In France, where the stationary character of the population as a whole and, in many regions, the decrease of the agricultural population, do not permit of such anticipations, the increase in the value of property has remained well behind that of income, notwithstanding the fact that, as far as one is able to judge, owing to the better economic condition of France the earnings of capital in France have been less affected by reason of diversion of income to augment the earnings of labor than was the case of Italy. On the basis of increase of income, we might estimate for France a present capital wealth of 1,200 billions, whereas the figure does not exceed 1,000 billions.

The future will prove whether or not Italian confidence is justified. In the meantime it is clear that, future progress being duly discounted, the national wealth of 550 billion lire, converted into dollars, is equivalent to not more than 115.6 billion present gold lire. This sum would be equal to 22.3 billion present dollars or 73 billion pre-war gold lire (14.1 billion pre-war dollars). This means a decrease of 36.5 per cent from the 22.2 billion dollars, which corresponded to the pre-war wealth of Italy including the unredeemed provinces.

We have intentionally left out of consideration the indebtedness to the United States and Great Britain, which are assessed, as we write, at about 2.1 billion dollars towards America, and at 2.9 billion dollars to England, aggregating thus some five billion dollars. If we were to subtract these from the present 22.3 billion dollars constituting Italy's wealth, there would remain to Italy 17.3 billion present dollars, equivalent to 10.9 billion pre-war dollars, with a decrease of 51 per cent in the pre-war wealth, estimated at 22.2 billion dollars.

Such is the reduction in the purchasing power of Italy's wealth — considered as a whole — on the international market.

This does not suffice, however, to give an adequate notion of the deterioration of Italian economic conditions because, while our wealth has lost so much of its purchasing power on the international market, our population has grown.

The repatriation of emigrants, which took place on such a large scale during the war, had the result that, in the 10 years, 1911–21, notwithstanding the losses of the war period, the population within our frontiers increased, absolutely, to a greater extent than ever in the past, and, relatively also, more than in the preceding 10 years. The closing of the principal outlets of emigration which has taken place since the war, has resulted in our population increasing more rapidly in these last years than in those immediately preceding the war, during which however, the increase was more rapid than in preceding years.

As a result, whereas from 1907 to 1914 the averages of the annual increase of population stood at 0.97 per cent, from 1919 to 1924, it amounted to 1.12 per cent. Nor does the addition of the new provinces alter these conclusions. Consequently, whereas the 115 billions of wealth and the 20 billions of income, in the middle of 1914, had to be distributed among about 37½ million persons (including among these the inhabitants of the then unredeemed provinces),[34] at the present time the 73

[34] To the population of the former provinces in the middle of 1914, numbering 35,858,951 inhabitants, we add over 1,600,000 inhabitants for the new provinces, which appear, in 1921, to have contained

billions of wealth and the 13.3 billions of income (in pre-war lire) now available, have to be distributed among 40.3 millions of persons.

Leaving out of account the international public debts, the decrease in the international purchasing power of the average income per capita in Italy, amounts to 38.3 per cent, and that of the average wealth per capita, to 40.9 per cent.

Taking into account the public debts to the treasuries of Great Britain and the United States, the diminution in the international purchasing power of Italy's average wealth per capita would amount to 56 per cent.

XIV. THE PROSPECT FOR THE FUTURE

We are not able to anticipate an early cessation of many of the factors which have reacted adversely on Italian economy. It would be difficult, for the present at least, to increase the length of the working day. For the present, and for some time to come, it will not be possible to redeem our internal debt. We cannot foresee any immediate outlets for our emigrants which are likely to prove an asset rather than a loss to the national wealth.

Before the war, Italian wealth presented a yearly increment amounting to between 2 and 2½ per cent, while the population increased by about one per cent.

This allowed a slow but steady progress in Italian economic conditions. At the present time, our population is increasing at the rate of 1.2 per cent; and although we are not able to estimate with exactness the annual increment of wealth, it is difficult to assume that it is appreciably larger than this rate. Unless unforeseen circumstances arise, or unless foreign capital comes forward liberally, it is difficult to forecast for the near future any appreciable improvement in the economic conditions of Italian people.

not more than 1,562,090; for we desire, in the absence of precise data, to err on the side of attenuating, rather than exaggerating, the decrease of wealth and income per capita.

What strikes one most forcibly is the fact that Italy's economy is to so great an extent at the mercy of forces which are beyond her own control.

Landed property represents 41 per cent of Italy's wealth and 37 per cent of the national income. Now it is unnecessary for us to emphasize the importance which changeable physical factors, which we can neither control nor even foresee, play in agricultural production.

Italy depends on foreign countries for her supplies of raw materials and for outlets for her emigration. Even apart from any predetermined action in this regard on the part of foreign governments, the most important factor in the national labor market appears to be the general conditions of the economic world rather than the particular conditions of the national market. A comparison of the progress of the two curves of emigration and unemployment since the war [35] shows that emigration, in general, does not increase when unemployment at home is on the increase, and there would consequently be a greater incentive to emigrate, but rather when there is an improvement in the conditions of the world market, and unemployment at home therefore diminishes.

As far as the immediate future is concerned, the best chance of a revival of Italian economic life lies in the possibility of lightening, however slightly, the burden of taxation. Under the pressure of public opinion at home and abroad, taxation was perhaps unduly loaded on to Italy so that there is reason to anticipate in respect of both the present estimates, and those of the next few years a small budget surplus, which may be devoted to giving some slight relief from taxation in branches where it proves most hampering to production.

We may also place hope in an intensification of agricultural production more especially of wheat, which recent tariff measures and the present government propaganda known as "the wheat

[35] *Index Numbers of the Economic Life of Italy in the Post-War Period (Statistical Tables)*, in the memoranda prepared for the debt funding conferences.

battle," tend to encourage. Measures of this kind ought not to be viewed from the strictly economic standpoint of protective duties in favor of our farmers but should be regarded as an episode in a big campaign, in which they represent on the part of the government, a demonstration of good will and an encouragement to farmers, who are called upon, at the same time, to redouble their efforts, and improve their methods.

As regards the more remote future, the greatest hopes for the progress of Italian economic life are with good reason directed to the control and exploitation of water. In part it is a question of the reclamation of land, and in part one of completing the water supply for quite extensive areas. The construction of reservoirs is already under way, but it is capable of further development. These reservoirs are intended to regulate the water supply in Central and Southern Italy, where the seasonal distribution of rains is not adequate to agricultural requirements. These facilities will also make it possible to supply an abundance of electric power for new industries. Even areas in many parts of Italy not in need of reclaiming, but already under cultivation, would be capable of greatly increasing their yields, if great estates were divided up into farms, supplied with dwelling-houses, agricultural tools, and live-stock of good breeds, which would render intensive cultivation possible and assure supplies of forage. This is the use to which every good Italian landlord puts his savings at the present time.

Another item on Italy's economic program from which considerable progress in national prosperity may be expected is the production of chemical fertilizers. The exploitation of deposits of potassic fertilizers which exist in our peninsula is likewise under consideration. Nitrogenous fertilizers can be produced by electric plants. This part of the program is bound up with the exploitation of water power. It is also closely related to the much discussed intensification of agricultural production, since an abundant use of fertilizers is evidently one of the conditions on which the future benefits of more intense and scientific cultivation depend.

Another hope of Italian economy lies in the development of those of our industries which depend mainly on labor and in a lesser measure on raw materials, since Italian labor has few rivals for intelligence and precision, while our country is notoriously poor in essential raw materials, notably iron and coal. Among such industries are to be enumerated above all those connected with agriculture, relating, for example, to tomato products, preserved fruits, milk products, citric and tartaric acids and the like. The development of some of these products is intimately identified with the program of cutting up large estates to which we have referred. Noteworthy progress has been achieved in the last few years in several of these fields, but great possibilities still remain open. Besides the agricultural industries, there are others which call for a certain mechanical ability (for example, the manufacture of typewriting machines, instruments of precision, calculating devices, and the like) and artistic aptitude (for example, the manufacture of ceramic products, jewelry, and the like). To some extent there are flourishing centers of these industries already in existence in Italy which are susceptible of rapid development especially in those cases where there is an opening for women, who are to-day entering industrial occupations in growing numbers.

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